

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

I. ORGANISATION AND OPERATIONS

South China Holdings Limited ("the Company") is incorporated in the Cayman Islands. Its shares are listed on The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. Its subsidiaries and associates are principally engaged in trading and manufacturing, securities and commodities brokerage and trading, margin financing, money lending, provision of corporate advisory services, information and technology related businesses, implementation and marketing of software applications, real estate investment and development, publishing and printing businesses, marketing and promotional services, sale of air tickets and provision of other related travel services (see Notes 15 and 16 for details).

2. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong, and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The financial statements have been prepared on the historical cost basis, except for listed investments, land and buildings and investment properties, which are carried at revalued amounts.

Principal accounting policies are summarised below:

a. Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries ("the Group"), together with the Group's share of post-acquisition profits/losses and reserves of its associates under the equity method of accounting. The results of subsidiaries and associates acquired or disposed of during the year are recorded from or to their effective dates of acquisition or disposal. Significant intra-group transactions and balances have been eliminated on consolidation.

b. Goodwill

Goodwill arising on acquisition of subsidiaries and associates represents the excess of cost of acquisition over the fair value of the Group's share of the separable net assets of subsidiaries and associates acquired. Discount on acquisition arises where the Group's share of the fair value of the separable net assets of subsidiaries and associates acquired exceeds the cost of acquisition. Both goodwill and discount on acquisition are recognised in reserves in the year of acquisition. Upon disposal of interests in subsidiaries and associates, the underlying goodwill or discount previously recognised is reversed and included as investment cost in determining the gain or loss on disposal.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

c. Subsidiaries

A subsidiary is a company in which the Company holds, directly or indirectly, more than 50% of its issued voting share capital as long-term investment. In the Company's financial statements, investment in subsidiaries is stated at cost less provision for any impairment in value, while income from subsidiaries is accounted for to the extent of dividends received and receivable.

d. Associates

An associate is an enterprise in which the Group has significant influence, but not control or joint control, and thereby has the ability to participate in its financial and operating policy decisions.

In the consolidated financial statements, investment in associates is accounted for under the equity method of accounting, whereby investment is initially recorded at cost and the carrying amount is adjusted to recognise the Group's share of the post-acquisition profits or losses of the associates, distributions received from the associates and other necessary alternations in the Group's proportionate interest in the associates arising from changes in the equity of the associates that have not been included in the income statement.

e. Contractual joint ventures

A contractual joint venture is an entity established between the Group and one or more other parties for a pre-determined period of time, with the rights and obligations of the joint venture partners being governed by a contract. If the Group is able to govern and control the financial and operating policies of the economic activities of the contractual joint venture, such joint venture is considered as a de facto subsidiary and is accounted for as a subsidiary. If the Group can only exercise significant influence over the management of the contractual joint venture, such joint venture is accounted for as an associate.

f. Long-term investments

Long-term investments are non-trading investments in listed and unlisted equity securities intended to be held on a long-term basis.

Long-term listed investments are stated at fair value, which is generally the market value, at the balance sheet date on an individual investment basis. Changes in fair value of those investments are recognised directly in the long-term investment revaluation reserve in the period in which the change occurs, until the investments are sold or otherwise disposed of, or until the value of the investments is determined to be impaired, at which time the cumulative gain or loss is accounted for in the income statement for the year.

Unlisted investments intended to be held on a long-term basis are stated at cost, less provision for impairment in value, as determined by the directors, on an individual investment basis.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

f. Long-term investments (Continued)

Upon disposal of the securities, any profit and loss, including any amount previously held in the long-term investment revaluation reserve in respect of those investments, is accounted for in the income statement.

g. Listed investments

Listed investments are equity securities held for trading purposes and 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 are accounted for in the income statement.

h. Fixed assets and depreciation

Fixed assets are stated at cost or valuation less accumulated depreciation. Major expenditures on modifications and betterments of fixed assets which will result in future economic benefits are capitalised, while expenditures on maintenance and repairs are expensed when incurred. Depreciation is provided on a straight-line basis to write off the cost or the revalued amount less estimated residual value of each asset over its estimated useful life.

Orchard includes fruit trees, protection covers, water tank, ditches, road and others. Cultivation costs during the development period of the orchard and life plants are capitalised as construction-in-progress until the commencement of commercial production following which the accumulated costs are depreciated over their estimated useful lives.

The annual rates of depreciation of fixed assets are as follows:

Land	2% to 4% (lease terms)
Buildings	2% to 10%
Furniture and leasehold improvements	10% to 25%
Machinery and equipment	10% to 25%
Moulds and tools	20% to 25%
Motor vehicles and vessels	20% to 33.3%
Orchard	6.7%

Other construction-in-progress represents factories and office buildings under construction and machinery and equipment pending installation. It is stated at cost, which includes the original cost of land, construction expenditures incurred, machinery and related installation costs, and other costs attributable to the construction of the buildings. No depreciation is provided in respect of construction-in-progress until the construction work is completed.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

h. Fixed assets and depreciation (Continued)

The carrying amount of fixed assets is assessed annually and when factors indicating an impairment are present. Expected future cash flows have not been discounted in determining the recoverable amount. If an impairment is present, the fixed assets are reported at the lower of carrying amount or recoverable amount.

The Group has taken advantage of the transitional provisions set out in paragraph 72 of Statement of Standard Accounting Practice 17, "Property, Plant and Equipment" issued by the Hong Kong Society of Accountants, and discontinued revaluing land and buildings effective from 30 September 1995.

Gains and losses on disposals of fixed assets are recognised in the income statement based on the net disposal proceeds less the carrying amount of the assets, with previously recognised revaluation surpluses transferred from the fixed assets revaluation reserve to retained profit.

Fixed assets held under finance leases are depreciated on the basis described above.

i. Investment properties

Investment properties are leasehold interests in land and buildings in respect of which construction and development work have been completed and which are held for their long-term investment potential. These properties are included in the balance sheet at their open market value on the basis of an annual valuation by independent qualified valuers. All changes in the value of investment properties are dealt with in the investment property revaluation reserve unless the total reserve is insufficient to cover a deficit on a portfolio basis, in which case the net deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged.

When an investment property is disposed of, previously recognised revaluation surpluses are reversed and the gain or loss on disposal reported in the income statement is determined based on the net disposal proceeds less the original cost.

No depreciation is provided for investment properties unless the unexpired lease term is 20 years or less, in which case depreciation is provided on the then carrying value over the unexpired lease term.

j. Development properties

Development properties include interests in land and buildings under development which are intended to be held on a long-term basis upon completion. Development properties are stated at cost less provision for any impairment in value. Cost includes the original costs of land and buildings, development and construction expenditures incurred, and interest and other direct costs attributable to such properties. No depreciation is provided for development properties.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

k. Intangible assets

Intangible assets, representing the eligibility rights to trade on or through The Stock Exchange of Hong Kong Limited and the Hong Kong Futures Exchange Limited, are stated at cost less accumulated amortisation.

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

l. Other non-current assets

Other non-current assets held on a long term basis are stated at cost less provision for impairment in value where considered necessary by the Directors.

m. Properties under development for sale

Properties under development for sale include interests in land and buildings under development which are intended for sale upon completion. Properties under development are stated at the lower of cost and net realisable value. Costs include land cost, development expenditure, professional fees, interest capitalised and other expenses incurred in connection with the development, net of incidental rental income.

n. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes costs of raw materials computed using the weighted average method of costing and, in the case of work-in-progress and finished goods, also direct labour and an appropriate proportion of production overheads. Net realisable value is based on estimated normal selling prices, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

o. Properties held for sale

Properties held for sale are included in current assets and are stated at the lower of cost and net realisable value. Cost includes land and building costs and other expenses incurred to bring the properties to their existing state. Net realisable value is the estimated price at which a property can be realised less related expenses.

p. Revenue recognition

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group. Revenue is recognised on the following bases:

- (i) Sales income — income from sales of merchandise and raw materials is recognised when the significant risks and rewards of ownership of the goods have been transferred to customers;
- (ii) Service income — income from provision of system integration services is recognised when the related services are rendered. Income from rendering of financial services is recognised based on the stage of completion of the transaction, provided that the costs involved can be measured reliably. The stage of completion of a transaction associated with the rendering of financial services is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction;
- (iii) Commission and brokerage income — income is accrued on all brokerage transactions on a trade date basis;
- (iv) Income from trading of securities, bullion and future contracts — income from trading of securities, bullion and future contracts is accrued on a trade date basis;
- (v) Income from sale of properties — revenue and profit from the sale of properties are recognised when a legally binding contract of sale has been executed. If the development of the relevant properties has not been completed, revenue and profit are recognised based on the stage of completion of the properties. The stage of completion of the properties is established by reference to the percentage of the costs incurred to date as compared to the estimated total costs on completion (with due allowance for contingencies). Costs include land cost, development expenditure, professional fees, interest capitalised and other expenses incurred in connection with the development. The profits so recognised are restricted to the amount of instalments received;

If purchasers fail to pay the balance of the purchase price on completion and the Group exercises its entitlement to resell the property, sales deposits received in advance of completion are forfeited and credited to the income statement. Any profits already recognised are reversed;

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

p. Revenue recognition (Continued)

- (vi) Income from publishing and printing business — income from sales of magazines is recognised when the magazines are delivered and titles have passed. Advertising income is recognised when the advertisements are published;
- (vii) Rental income — rental income is recognised when rental become due and receivable; and
- (viii) Interest income — interest income is recognised on a time proportion basis on the principal outstanding and at the rates applicable.

q. Taxation

Individual companies within the Group provide for profits tax on the basis of their profit for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for profits tax purposes.

Deferred taxation is provided under the liability method in respect of significant timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except when it is considered that no liability will arise in the foreseeable future. Deferred tax assets are not recognised unless the related benefits are expected to crystallise in the foreseeable future.

r. Leases

Finance leases represent those leases under which substantially all the risks and rewards of ownership of the leased assets are transferred to the Group. Fixed assets held under finance leases are initially recorded at the present value of the minimum payments at the inception of the leases, with equivalent liabilities categorised as appropriate under current or non-current liabilities. Interest expense, which represents the difference between the minimum payments at the inception of the finance leases and the corresponding fair value of the assets acquired, is allocated to accounting periods over the period of the leases to produce a constant rate of charge on the outstanding balance.

Operating leases represent those leases under which substantially all the risks and rewards of ownership of the leased assets remain with the lessors. Rental payments under operating leases are charged to the income statement on a straight-line basis over the period of the relevant leases.

s. Cash equivalents

For the purpose of the consolidated statement of cash flows, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

t. Foreign currency translation

Individual companies within the Group maintain their books and records in the primary currencies of their respective operations ("the functional currencies"). In the accounts of the individual companies, transactions in other currencies during the year are translated into the respective functional currencies at the applicable rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies are translated into the respective functional currencies at the applicable rates of exchange in effect at the balance sheet date. Exchange gains or losses are dealt with in the income statements of the individual companies.

The Group prepares consolidated financial statements in Hong Kong dollars. For the purpose of consolidation, the assets and liabilities of subsidiaries with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars at the applicable rates of exchange in effect at the balance sheet date; income and expense items are translated into Hong Kong dollars at the applicable average exchange rates during the year. Exchange differences arising from such translation are dealt with as movements in cumulative translation adjustments.

u. Employee retirement benefits

The costs of employee retirement benefits are recognised as an expense in the period in which they are incurred.

v. Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to bring to its intended use or sale are capitalised as part of the cost of the asset at rates based on actual cost of specific borrowings.

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

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

3. TURNOVER AND REVENUE

Analysis of turnover and revenue by principal activity is as follows:

	2000 \$'000	1999 \$'000
Trading and manufacturing — sale of merchandise	1,940,023	2,010,007
Securities and commodities brokerage	144,454	167,998
Securities, bullion and commodities trading	53,027	5,819
Interest income from margin financing and money lending operations	63,139	27,581
Income from rendering of financial services	7,404	10,917
Real estate development — sale of properties	5,991	13,182
Real estate investments — rental income	3,632	5,231
Publishing and printing and the provision of related services	242,319	142,092
Information and technology related business	59,915	—
Others	1,432	—
Total turnover	2,521,336	2,382,827
Sale of raw materials	1,714	7,595
Revenue from sales of tooling/moulds	4,632	—
Management fee income from associates	5,300	1,525
Interest income — other than that included in turnover	13,650	18,406
Others	9,149	—
Total revenue	2,555,781	2,410,353

Analysis of turnover by geographical location* is as follows:

	2000 \$'000	1999 \$'000
United States of America	954,409	1,150,683
Europe	558,684	516,917
The Peoples' Republic of China ("the PRC")	251,235	199,999
Hong Kong	515,968	358,283
Japan	86,203	35,168
Others	154,837	121,777
Total turnover	2,521,336	2,382,827

* Turnover by geographical locations is determined on the basis of the destination of delivery of merchandise, and location where the service is rendered.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

4. (LOSS) PROFIT BEFORE TAXATION

(Loss) Profit before taxation in the consolidated income statement was determined after charging or crediting the following items:

	2000	1999
	\$'000	\$'000
After charging:		
Interest expense on		
— bank overdrafts and loans wholly repayable within five years	26,272	17,325
— finance leases	155	629
Cost of inventories sold (excluding provision for slow-moving and obsolete inventories)	1,922,155	1,254,563
Operating lease rentals in respect of rented premises	29,217	15,647
Depreciation		
— owned assets	80,562	64,017
— assets held under finance leases	2,077	6,651
Provision for slow-moving and obsolete inventories	14,511	18,168
Net loss on disposal of fixed assets	1,459	4,569
Staff (include directors) costs	594,145	515,541
Auditors' remuneration	2,072	1,673
Net exchange loss	573	—

After crediting:

Interest income from		
— bank deposits	4,931	6,487
— advances to associate (Note 16)	8,116	11,729
— trade debtors	603	190
Rental income	3,632	5,231
Management fees from associates (a)	5,300	1,525
Gain on disposal of interest in subsidiaries (b)	51,426	22,794
Gain on disposal/dilution of interest in an associate (c)	31,099	8,546
Dividend income from		
— listed investments	1,230	289
— long-term investments	202	137
Net gain on disposal of short-term listed investments	4,289	7,970
Net exchange gain	—	1,122

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

4. (LOSS) PROFIT BEFORE TAXATION (Continued)

Notes

- a. The Group charged management fees of approximately \$2,000,000 (1999: \$1,525,000) and \$3,300,000 (1999: Nil) to Fourseas.com Limited and Giant Riches Limited, respectively, for provision of administrative support services.
- b. During the year, the Group disposed of certain interests in Wah Shing International Holdings Limited ("WSIHL") and recognised a gain on disposal of approximately \$37,230,000 (1999: \$22,794,000). In addition, South China Industries Holdings Limited, a wholly owned subsidiary of the Group disposed of its 100% interests in a subsidiary to WSIHL. In this connection, the Group recognised a gain on disposal of approximately \$9,949,000. The Group also recognised a gain of approximately \$4,000,000 in relation to the proceeds received for a subsidiary disposed in prior years.
- c. During the year, the Group disposed of certain interests in Fourseas.com Limited ("Fourseas"), an associate, and recognised a gain on disposal of approximately \$26,690,000 (1999: \$5,900,000). In addition, during the year, certain warrant holders of Fourseas exercised their rights to acquire shares in Fourseas. As a result, the Group recognised a dilution gain of approximately \$4,409,000 (1999: \$2,646,000).

5. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

- a. Details of directors' emoluments were:

	2000	1999
	\$'000	\$'000
Fees for executive directors	190	190
Fees for non-executive directors	162	125
Other emoluments for executive directors		
— Basic salaries and allowances	10,239	11,443
— Bonus*	306	1,500
— Contribution to pension scheme	431	349
	11,328	13,607

* The executive directors were entitled to a discretionary bonus.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

5. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (Continued)

Analysis of directors' emoluments by number of directors and emolument ranges was as follows:

	2000	1999
Executive directors		
— Nil–\$1,000,000	—	1
— \$1,000,001–\$1,500,000	—	1
— \$1,500,001–\$2,000,000	1	—
— \$2,500,001–\$3,000,000	2	—
— \$3,000,001–\$3,500,000	1	1
— \$4,000,001–\$4,500,000	—	1
— \$4,500,001–\$5,000,000	—	1
	4	5
Non-executive directors		
— Nil to \$1,000,000	4	2

During the year, no directors waived any emoluments and no emoluments of the Directors was incurred as inducement to join or upon joining the Group or as compensation for loss of office.

- b. During the year, the five highest-paid employees included three (1999: three) executive directors, details of whose remuneration were included in the disclosure in Note 5. a. The details of the emoluments of the remaining two (1999: two) highest-paid non-director employees were:

	2000	1999
	\$'000	\$'000
Basic salaries and allowances	5,178	5,168
Bonus*	1,910	12,453
Contributions to pension scheme	131	131
	7,219	17,752

* The non-director employees were entitled to a discretionary bonus.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

5. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (Continued)

Analysis of emoluments paid to the aforementioned two (1999: two) non-director employees, by number of individuals and emolument ranges was as follows:

	2000	1999
\$3,000,001–\$3,500,000	1	—
\$4,000,001–\$4,500,000	1	—
\$7,000,001–\$7,500,000	—	1
\$10,500,001–\$11,000,000	—	1
	2	2

During the year, no emoluments were paid to the five highest paid individuals (including directors and non-director employees) as inducement to join or upon joining the Group or as compensation for loss of office.

6. TAXATION

Taxation comprised:

	2000	1999
	\$'000	\$'000
Company and subsidiaries:		
Provision for current taxation		
— Hong Kong profits tax	6,474	9,502
— Overseas income tax	1,328	708
— Special rebate of Hong Kong profits tax	—	(845)
— Under-provision in prior years	—	340
Provision for (Write-back of) deferred taxation	89	(10)
	7,891	9,695
Associates:		
Provision for current taxation		
— Hong Kong profits tax	—	49
Write-back of deferred taxation	(175)	—
	(175)	49
	7,716	9,744

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

6. TAXATION (Continued)

Hong Kong profits tax was provided at the rate of 16% (1999: 16%) on the estimated assessable profit arising in or derived from Hong Kong. Overseas income tax was provided by subsidiaries with overseas operations at tax rates applicable in the countries in which the subsidiaries operate.

7. (LOSS) PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated loss attributable to shareholders included a profit of approximately \$49,871,000 (1999: \$26,549,000) dealt with in the financial statements of the Company.

8. DIVIDENDS

	2000 \$'000	1999 \$'000
Interim dividend paid of 5.0 cents (1999: 0.5 cents) per share	22,783	2,280
Proposed final dividend of 5.0 cents (1999: 6.5 cents) per share	22,783	29,618
	45,566	31,898

9. RETAINED PROFIT

Retained profit (consolidated) comprised:

	2000 \$'000	1999 \$'000
Company and subsidiaries	258,646	294,332
Associates	(21,937)	18,784
	236,709	313,116

10. (LOSS) EARNINGS PER SHARE

The calculation of basic loss per share is based on the loss attributable to shareholders of approximately \$42,513,000 (1999: profit of \$57,930,000) and on the weighted average number of approximately 455,663,000 shares (1999: 455,950,000 shares) in issue during the year.

Diluted (loss) earnings per share is not shown as there is no dilution effect for both years.

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II. FIXED ASSETS

a. Movements in fixed assets (consolidated) were:

	2000							1999	
	Land and buildings \$'000	Furniture and leasehold improvements \$'000	Machinery and equipment \$'000	Moulds and tools \$'000	Motor vehicles and vessels \$'000	Orchard* \$'000	Construction-in-progress* \$'000	Total \$'000	Total \$'000
Cost or Valuation									
Beginning of year	280,578	214,664	290,528	23,683	28,739	—	—	838,192	702,319
Attributable to acquisition of subsidiaries	1,817	859	3,744	—	2,935	—	22,774	32,129	33,375
Additions	32,094	53,183	16,969	805	1,324	3,705	9,793	117,873	119,479
Disposals	(4,071)	(7,699)	(3,650)	(108)	(605)	—	—	(16,133)	(17,403)
Transfer from construction-in-progress	—	—	914	—	—	12,138	(13,052)	—	—
Transfer from investment properties	100,000	—	—	—	—	—	—	100,000	—
Reclassification	(9,465)	—	9,618	(153)	—	—	—	—	—
Translation adjustments	—	(582)	(223)	—	(33)	—	—	(838)	422
End of year	400,953	260,425	317,900	24,227	32,360	15,843	19,515	1,071,223	838,192
Representing:									
At cost	243,944	260,425	317,900	24,227	32,360	15,843	19,515	914,214	781,183
At professional valuation									
— June 2000	100,000	—	—	—	—	—	—	100,000	—
— 1994	10,973	—	—	—	—	—	—	10,973	10,973
— 1992	204	—	—	—	—	—	—	204	204
— 1991	9,500	—	—	—	—	—	—	9,500	9,500
— 1989	5,220	—	—	—	—	—	—	5,220	5,220
— 1988	31,112	—	—	—	—	—	—	31,112	31,112
	400,953	260,425	317,900	24,227	32,360	15,843	19,515	1,071,223	838,192
Accumulated depreciation									
Beginning of year	41,127	143,765	187,072	18,549	21,685	—	—	412,198	337,933
Attributable to acquisition of subsidiaries	544	106	1,246	—	1,162	—	—	3,058	15,268
Provision for the year	11,334	31,958	32,197	3,255	3,173	722	—	82,639	70,668
Disposals	(4,071)	(4,114)	(3,139)	(106)	(538)	—	—	(11,968)	(11,820)
Reclassification	(2,426)	—	2,503	(77)	—	—	—	—	—
Translation adjustments	—	(548)	(61)	—	(21)	—	—	(630)	149
End of year	46,508	171,167	219,818	21,621	25,461	722	—	485,297	412,198
Net book value									
End of year	354,445	89,258	98,082	2,606	6,899	15,121	19,515	585,926	425,994
Beginning of year	239,451	70,899	103,456	5,134	7,054	—	—	425,994	364,386

* The orchard and certain construction-in-progress are situated on land in Guangdong Province, the PRC, of which the Group is in the process of applying for the land use right certificate.

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(Amounts expressed in Hong Kong dollars unless otherwise stated)

II. FIXED ASSETS (Continued)

b. Details of land and buildings:

Geographical locations and tenure of title:

	2000	1999
	\$'000	\$'000
Hong Kong		
— medium-term leases	101,009	63,282
— long-term leases	98,833	21,354
The PRC		
— medium-term leases	35,773	43,306
— others*	118,830	111,509
	354,445	239,451

* This includes approximately \$21,751,000 (1999: \$11,730,000) for the use of certain land in Shenzhen and Dongguan the PRC, for which the Group's is still in the process of applying for the land use rights. The land use rights will be formally transferred to the Group after the remaining consideration of approximately \$8,242,000 (1999: \$11,591,000) has been paid. The remaining balance of approximately \$97,079,000 (1999: \$99,779,000) represents construction costs of factory buildings on such land.

Certain properties, machinery and equipment with a net book value of approximately \$196,732,000 (1999: \$92,135,000) were pledged as collateral for the Group's banking facilities (see Note 36).

Certain land and buildings were stated at revalued amounts. Had those land and buildings been carried at cost less accumulated depreciation, the net book value of the Group's land and buildings as at 31 December 2000 would have been approximately \$314,783,000 (1999: \$202,699,000).

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

11. FIXED ASSETS (Continued)

c. Fixed assets held under finance leases:

Certain machinery and equipment, motor vehicles and vessels included in Note 11. a above were held under finance leases. Details of these assets were as follows:

	2000 \$'000	1999 \$'000
Cost	3,147	23,013
Less: Accumulated depreciation	(477)	(21,243)
Net book value	2,670	1,770

12. INVESTMENT PROPERTIES

Movements of investment properties (consolidated) are:

	2000 \$'000	1999 \$'000
Beginning of year	186,528	137,746
Attributable to acquisition of subsidiaries	—	42,782
Addition during the year	270	—
Transfer to fixed assets (Note 11)	(100,000)	—
(Deficit) Surplus on revaluation	(7,339)	6,000
End of year	79,459	186,528

Prior to the transfer to fixed assets on 31 May 2000, the Group's investment property was revalued by Sallmanns (Far East) Limited, independent professional valuers at open market value based on its existing state.

Investment properties were stated at open market value as at 31 December 2000 as determined by Messrs. A.G. Wilkinson & Associates and Sallmanns (Far East) Limited, independent qualified valuers. All of the Group's investment properties were mortgaged as collateral for the Group's banking facilities (see Note 36).

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

12. INVESTMENT PROPERTIES (Continued)

The geographical locations and tenure of investment properties are as follows:

	2000 \$'000	1999 \$'000
Hong Kong		
— medium-term leases	75,459	90,928
— long-term leases	4,000	95,600
	79,459	186,528

Details of the investment properties as at 31 December 2000 were as follows:

Location	Group's effective interest	Existing use
Units B, C of 2nd Floor	39.4%	Industrial and carparking
Unit A on the 5th Floor		
Units A, B and D on the 10th Floor		
The whole of 12th and 13th Floors		
Carpark space Nos. 3, 4, 6, 7, 13, 14, 15, 16		
Wah Shing Centre		
5 Fung Yip Street		
Chaiwan		
Hong Kong		
Units J and L on 2nd Floor	47.3%	
Private Car Parking Space		
Nos. G20 and G22 and Lorry Parking Space		
Nos. L3 and L4 on Ground Floor		
Kaiser Estate 2nd Phase		
Nos. 47–53 Man Yue Street		
Nos. 28–28 Man Lok Street		
Hunghom		
Kowloon		
Hong Kong		

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

12. INVESTMENT PROPERTIES (Continued)

Location	Group's effective interest	Existing use
1st Floor of Block G Kimberley Mansion No. 15 Austin Avenue Tsimshatsui Kowloon	47.3%	Commercial/ residential
Unit 14 on 6th Floor Nan Fung Commercial Centre No. 19 Lam Lok Street Kowloon Bay Kowloon Hong Kong	47.3%	Commercial
Flats A, B, C and D on 1st Floor Fu Fung Building Nos. 5-7 Tsing Fund Street North Point Hong Kong	47.3%	Commercial
Unit A on Ground Floor Mai Luen Industrial Building Nos. 23-31 Kung Yip Street Kwai Chung New Territories	47.3%	Industrial

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

13. DEVELOPMENT PROPERTIES

Movements of development properties (consolidated) are:

	2000 \$'000	1999 \$'000
Beginning of year	23,585	30,208
Additions	186	93
Write back of (Provision for) impairment in value	6,790	(6,790)
Translation adjustments	(202)	74
End of year	30,359	23,585
Analysis by geographical location:		
Hong Kong	13,402	13,402
The PRC	16,957	10,183
	30,359	23,585

Development properties located in Hong Kong were held under long-term leases. Development properties located in the PRC were held under land use rights for a period of 50 years expiring in 2045.

Development properties comprised:

	2000 \$'000	1999 \$'000
Land cost	22,756	22,756
Construction and development expenditures	6,984	7,186
Deposit paid	6,274	6,088
	36,014	36,030
Less: Provision for impairment in value	(5,655)	(12,445)
	30,359	23,585

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

13. DEVELOPMENT PROPERTIES (Continued)

Details of development properties as at 31 December 2000 are as follows:

Location	Group's effective interest	Stage of construction	Expected completion date	Expected use	Approximate gross floor area
Financial & Trade Estate Zone Xian Gang 4th Road Tanggu, Tianjin the PRC	51%	Site formation	2003	Commercial/ residential	Site area is approximately 500,000 sq.m. and gross floor area is still under negotiation
Lot Nos. 116-121, 123-126, 127A, 127R.P., 129-135, 136A, 136R.P., 137, 140, 141A, 141B, 141C, 143, 144, 145, 146A, 146R.P., 148 in D.D. No. 236 Tai Wan Tau Clearwater Bay New Territories Hong Kong	100%	Vacant land	N/A	Residential	N/A

14. PROPERTIES UNDER DEVELOPMENT FOR SALE

The geographical locations and tenure of properties under development for sale (consolidated) are:

	2000 \$'000	1999 \$'000
Hong Kong — medium-term leases	17,874	17,887
The PRC	59,826	69,606
	77,700	87,493

Properties under development for sale located in the PRC are held under land use rights for periods from 50 to 70 years expiring in 2043 to 2063.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

14. PROPERTIES UNDER DEVELOPMENT FOR SALE (Continued)

Details of properties under development for sale as at 31 December 2000 are as follows:

Location	Group's effective interest	Stage of construction	Expected completion date	Expected use	Approximate gross floor area
Nos. 18–20 Ming Fung Street Wong Tai Sin Kowloon Hong Kong	47.3%	Planning	N/A	Residential/ commercial	Site area is 1,800 sq.ft.
Qingdao National Shilaoren Tourist Area (known as Land Plot No. 1-3-3) Qingdao Shangdong Province The PRC	28.4%	Site formation	N/A	Residential/ commercial	Site area is 537,973 sq.ft.
South of Zhanjiangan Lu and west of Xujiamaidao Hotel Qingdao Shangdong Province The PRC	47.3%	Bare site	N/A	Residential/ commercial	Site area is 124,007 sq.ft.
Dongguan Lion City (Phase III to V), Liaobu Zhen Dongguan Guangdong Province The PRC	28.4%	Bare site	N/A	Residential/ commercial	2,123,351 sq.ft.

These properties under development for sale are held by subsidiaries, of which the Group's interests in these subsidiaries are held through other subsidiaries which in turn hold more than 50% of the issued voting capital in these subsidiaries.

The properties under development for sale in Hong Kong were mortgaged as collateral for the Group's banking facilities (see Note 36).

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

15. INVESTMENT IN SUBSIDIARIES

In the Company's balance sheet, investment in subsidiaries comprised:

	2000 \$'000	1999 \$'000
Unlisted shares, at cost	527,702	527,702
Advances to subsidiaries	265,767	283,350
	793,469	811,052

All of the balances with subsidiaries are unsecured, non-interest bearing and have no pre-determined repayment terms, except for approximately \$6,430,000 (1999: \$6,519,000) of advances to subsidiaries which bear interest at Hong Kong prime lending rate plus 3%.

The underlying value of investment in subsidiaries is, in the opinion of the Directors, not less than the Company's carrying value as at 31 December 2000.

Details of the principal subsidiaries as at 31 December 2000, all held indirectly by the Company, were as follows:

Name of company	Place of incorporation and operations	Issued and fully paid share capital	Percentage of equity interest held	Principal activities
South China Industries Group:				
Micon Limited	Hong Kong	\$2	74.7%	Investment holding
South China Industries Investments Limited	Hong Kong	\$92,531,436	74.7%	Investment holding
South China Industries Limited (listed on The Stock Exchange of Hong Kong Limited)	Cayman Islands/ Hong Kong	\$53,033,000	74.7%	Investment holding
South China (Tianjin) Garment Co. Ltd. (c)	The PRC	Rmb49,132,182	44.8% (d)	Manufacturing of clothing
Tianjin South China Leather Products Co. Ltd. (c)	The PRC	Rmb9,882,115	52.3%	Manufacturing of leather products

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

15. INVESTMENT IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation and operations	Issued and fully paid share capital	Percentage of equity interest held	Principal activities
Tianjin South China Shoes Products Co. Ltd. (c)	The PRC	Rmb36,100,200	59.8%	Manufacturing of leather footwear products
Tianjin South China Leather Chemical Products Co. Ltd. (c)	The PRC	Rmb19,681,600	59.8%	Manufacturing of leather products
Trimwell Limited	Hong Kong	\$2	74.7%	Investment holding
Wah Shing Electronics Company Limited	Hong Kong/ The PRC	\$571,500	44.1% (d)	Manufacturing of toys
Wah Shing International Holdings Group:				
Buji Soft Toys Company Limited	Hong Kong	\$20 ordinary \$6,000,000 non- voting deferred shares (a)	39.4% (d)	Trading in toys
Buji Soft Toys Company (BVI) Limited	British Virgin Islands/ The PRC	US\$1,000	39.4% (d)	Manufacturing of toys
Copthorne Holdings Corporation	Republic of Panama/Hong Kong	US\$200	39.4% (d)	Property investment
Man Wah Trading Limited	Hong Kong	\$10,000	39.4% (d)	Investment holding
Wah Shing Toys Company Limited	Hong Kong	\$2 ordinary \$3,020,002 non- voting deferred shares (b)	39.4% (d)	Trading in toys

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

15. INVESTMENT IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation and operations	Issued and fully paid share capital	Percentage of equity interest held	Principal activities
Wah Shing International Holdings Limited (listed on The Singapore Exchange Securities Trading Limited)	Bermuda/Hong Kong	\$226,800,000	39.4% (d)	Investment holding
South China Information and Technology Limited (listed on The Stock Exchange of Hong Kong Limited) ("SCIT")	Cayman Islands/ The PRC	\$68,053,000	47.3% (d)	Investment holding
South China Strategic Limited	Hong Kong	\$308,594,000	47.3% (d)	Investment holding
South China Strategic Property Development Limited	Hong Kong	\$5,000,000	47.3% (d)	Property development and investment holding
Beijing JTP Software Technology Co. Ltd. (c)	The PRC	Rmb2,000,000	33.1% (d)	Information and Technology related business
Shanghai Zhongteng Information Network Co. Ltd. (c)	The PRC	Rmb4,600,000	28.4% (d)	Information and Technology related business
Nanjing South China Skytech Co. Ltd. (c)	The PRC	Rmb6,000,000	31.6% (d)	Information and Technology related business
Chongqing South China Zenith Information Technology Co. Ltd. (c)	The PRC	Rmb7,000,000	28.4% (d)	Information and Technology related business
Shenyang Shenglian Electronics Science & Technology Ltd. (c)	The PRC	Rmb4,000,000	33.1% (d)	Information and Technology related business

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

15. INVESTMENT IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation and operations	Issued and fully paid share capital	Percentage of equity interest held	Principal activities
South China Online Group:				
South China Capital Limited	Hong Kong	\$2	74.5%	Corporate finance advisory services
South China Commodities Limited	Hong Kong	\$10,000,000	74.5%	Commodities broking
South China Finance and Management Limited	Hong Kong	\$2	74.5%	Share dealing and provision of management services
South China Financial Credits Limited	Hong Kong	\$2	74.5%	Money lending
South China Online Limited (listed on The Stock Exchange of Hong Kong Limited)	Hong Kong	\$121,554,000	74.5%	Investment holding
South China Research Limited	Hong Kong	\$600,000	74.5%	Research publication
South China Securities Limited	Hong Kong	\$10,000,000	74.5%	Securities broking and margin financing
South China Securities (UK) Limited	United Kingdom	£200,000	74.5%	Provision of securities trading services
South China Media Group:				
South China Media Limited	Hong Kong	\$2	100%	Provision of publishing, marketing and promotional services

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

15. INVESTMENT IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation and operations	Issued and fully paid share capital	Percentage of equity interest held	Principal activities
South China Media Online Limited	Hong Kong	\$2	100%	Provision of e-commerce consultation and management services
Other subsidiaries:				
Bright Come Investments Limited	Hong Kong	\$2	100%	Investment holding
Guangdong HuaXing Fruit Development Co. Ltd. (c)	The PRC	Rmb39,252,293	100%	Fruit Plantation
Kitbond Investments Limited	Hong Kong	\$100	100%	Investment holding
Nanjing South China Bao Qing Jewellery Ltd. (c)	The PRC	Rmb3,083,200	60%	Manufacturing and sale of ornaments and jewellery
Shengyang Jinchang Pharmaceutical Company Limited	The PRC	Rmb9,677,400	35.7% (d)	Manufacture medical
Spark-inn Investments Limited	Hong Kong	\$2	100%	Property investment
Tek Lee Finance And Investment Corporation Limited	Hong Kong	\$287,498,818	100%	Investment holding
Tianjin South China Pharmaceutical Co. Ltd. (c)	The PRC	Rmb24,330,000	51%	Packaging and sale of penicillin
Tianjin South China Real Estate Development Co. Ltd. (c)	The PRC	Rmb43,000,000	51%	Property development

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

15. INVESTMENT IN SUBSIDIARIES (Continued)

Notes:

- (a) The non-voting deferred shares have no voting rights, are only entitled to dividends when the net profit of the company exceeds \$5,000,000,000 and are not entitled to any distributions upon winding up unless a sum of \$100,000,000,000 has been distributed to the holders of ordinary shares of the company.
- (b) The non-voting deferred shares have no voting rights, are only entitled to dividends when the net profit of the company exceeds \$100,000,000,000 and are not entitled to any distributions upon winding up unless a sum of \$100,000,000,000 has been distributed to the holders of ordinary shares of the company. All of the balances with subsidiaries are unsecured, bear interest at Hong Kong prime lending rate to Hong Kong prime lending rate plus 3% and have no pre-determined repayment terms.
- (c) The Company's subsidiaries in the PRC comprise equity joint ventures which were established for periods of 10 years to 50 years expiring from 2004 to 2046.
- (d) These are subsidiaries as the Group's interests in these companies is held through subsidiaries which in turn hold more than 50% of the issued voting share capital in these companies.

The above summary lists only the principal subsidiaries of the Company which, in the opinion of the Directors, principally affected the results 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.

None of the subsidiaries had any loan capital in issue at any time during the year ended 31 December 2000.

16. INVESTMENT IN ASSOCIATES

Investment in associates (consolidated) comprised:

	2000 \$'000	1999 \$'000
Unlisted shares, at cost	162,486	162,538
Shares listed in Hong Kong, at cost	106,433	80,019
Goodwill on acquisition, eliminated against reserves	(7,556)	(6,540)
	261,363	236,017
Share of undistributed post-acquisition results	(43,021)	18,784
	218,342	254,801
Advances to associates	301,124	286,397
Advances from associates	(19,220)	(45,985)
	500,246	495,213
Quoted market value of shares listed in Hong Kong	117,757	374,604

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

16. INVESTMENT IN ASSOCIATES (Continued)

The underlying value of investment in associates is, in the opinion of the Directors, not less than the carrying value as at 31 December 2000.

Details of the principal associates as at 31 December 2000, all held indirectly by the Company, are:

Name of company	Place of incorporation and operations	Percentage of equity interest held	Principal activities
Firm Wise Investment Limited	Hong Kong	14.2% (a)	Property development
Fourseas.com Limited (listed on The Stock Exchange of Hong Kong Limited)	Bermuda/ Hong Kong	21.1%	Sales of air tickets and provision of travel-related services
Giant Riches Limited	Hong Kong	43.6%	Property development
Nanjing South China Dafang Electric Co. Ltd. (c)	The PRC	38.1% (b)	Manufacturing of motors
Nority International Group Limited (listed on The Stock Exchange of Hong Kong Limited)	Cayman Islands/ The PRC	31.4%	Manufacturing of shoes and footwear products
Tianjin South China Tools (Holdings) Co. Ltd. (c)	The PRC	38.1% (b)	Manufacturing of tools

Notes:

- a. These are associates as the Group's interests in these companies are held through subsidiaries which in turn hold more than 20% of the issued voting share capital in these companies.
- b. Prior to 1 January 1998, these companies were regarded as subsidiaries of the Group, as the Directors considered they could exercise control over these companies. During the year ended 31 December 1998, the Group started discussions with its PRC joint venture partners with the objective of rationalising its investments in the PRC, and as a result, the Directors consider they can now only exercise significant influence over these companies and these companies have been classified as associates since then.

During the year, the Group continued its negotiation process with its joint venture partners. In addition, legal proceedings were taken against certain PRC joint venture partners for breach of the joint venture agreements. In the opinion of the Directors and their legal counsel, the outcome of such negotiation and legal proceedings is likely to be favourable to the Group and the Group will be able to recover at least the cost of investments in these companies.

- c. The Group's associates in the PRC are equity joint ventures established for periods of 10 to 50 years expiring in 2003 to 2046.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

16. INVESTMENT IN ASSOCIATES (Continued)

Details of advances to associates as at 31 December 2000 are as follows:

	\$'000
Firm Wise Investment Limited ("FWIL") (i)	235,694
Fourseas.com Limited and its subsidiaries	51,797
Nanjing Hua Guan Compressor Ltd.	19
Nanjing South China Power Capacitor Co. Ltd.	2,912
Nanjing Sanda Motor Co. Ltd	93
Nanjing South China Santa Machinery Co. Ltd.	1,669
Nority International Group Limited and its subsidiaries	174
Shanghai Qiao Ning Real Estate Development Co. Limited ("Qiao Ning") (ii)	6,894
Tianjin South China Tools (Holdings) Co. Ltd.	1,872
	301,124

Notes:

- i. FWIL is principally engaged in the development of a commercial building complex ("the Property") in Central, Hong Kong. The Property is expected to be completed in June 2001. The Directors have assessed the realisable value of the Property by reference to the market prices of comparable buildings and advice from independent qualified valuers, and consider that the net realisable value of the Property would not be less than its cost. As a result, no provision for the investment in and advances to the associate is considered necessary.
- ii. Qiao Ning is an equity joint venture incorporated in the PRC for a period of 10 years expiring in 2003. As at 31 December 2000, the sole asset of Qiao Ning comprised a property under development located in Shanghai, the PRC, on which the construction work has been suspended, pending the resolution of certain disputes between the joint venture partners. The Directors have assessed the realisability of the property under development by reference to advice from independent qualified valuers, and consider that its net realisable value of the property under development will not be less than its cost. As a result, no provision for the investment in and advances to associate is considered necessary.

The amounts advanced to FWIL were used to finance its development project in Hong Kong. The amounts advanced to other associates were used to finance their respective operations.

All of the balances with associates are unsecured, non-interest bearing and have no pre-determined repayment terms, except for approximately \$287,491,000 (1999: \$272,758,000) of advances to associates which bear interest from 0.5% per annum to 2% over the Hong Kong prime lending rate per annum.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

16. INVESTMENT IN ASSOCIATES (Continued)

A summary of the balance sheet as at 31 December 2000 of FWIL based on its unaudited account and the Group's attributable interests in FWIL is as follows:

	Balance Sheet \$'000	Group's attributable interests \$'000
Property under development	1,281,548	181,980
Net current liabilities	(442,260)	(62,801)
Amount due to shareholders	(251,232)	(35,675)
Amount due to a related company	(588,110)	(83,512)
	(54)	(8)

17. LOANS AND ADVANCES

Loan and advances (consolidated) comprised:

	2000 \$'000	1999 \$'000
Loans and advances to customers	373,954	339,696
Provision for bad and doubtful debts	(85,727)	(58,702)
	288,227	280,994
Market value of collateral at the end of year	518,896	890,388

At 31 December 2000, certain collateral of customers was pledged to secure banking facilities granted to the Group (see Note 36).

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

17. LOANS AND ADVANCES (Continued)

As at 31 December 2000, analysis of the maturity profile of loans and advances to customers (consolidated) by remaining periods to their contractual maturity dates is as follows:

	2000	1999
	\$'000	\$'000
Repayable:		
On demand	255,412	280,994
Within three months	6,119	—
Within one year but over three months	17,460	—
Within five year but over one year	8,819	—
Over five years	417	—
	288,227	280,994
Portion classified as current assets	278,991	280,994
Portion classified as long-term loans and advance under non-current assets	9,236	—

18. INTANGIBLE ASSETS

	2000	1999
	\$'000	\$'000
Cost		
Transfer from other non-current assets and at 31 December	1,619	—
Accumulated amortisation		
Provided for the year and at 31 December	135	—
Net book value, at 31 December	1,484	—

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 6 March 2000, the Group received four Stock Exchange Trading Rights, five Futures Exchange Trading Rights and 10,187,500 ordinary shares of \$1 each in Hong Kong Exchanges and Clearing Limited ("the HKEC Shares") in exchange for its four shares previously held in the Stock Exchange and five shares previously held in the Futures Exchange.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

18. INTANGIBLE ASSETS (Continued)

The carrying costs of the previously held shares in the Stock Exchange and Futures Exchange (see Note 19) have been apportioned to the Stock Exchange Trading Rights, the Futures Exchange Trading Rights and the HKEC Shares (see Note 20) on the basis of their respective estimated fair values on 6 March 2000.

The Stock Exchange Trading Rights and Futures Exchange Trading Rights have been classified as intangible assets as above and the accounting policy is set out in Note 2 to the accompanying financial statements.

19. LONG-TERM INVESTMENTS

Long-term investments (consolidated) comprised:

	2000 \$'000	1999 \$'000
Investments in shares listed in Hong Kong, at market value	66,950	105,936
Unlisted investments, at cost	43,534	45,481
Provision for impairment in value	(5,000)	(1,000)
	38,534	44,481
	105,484	150,417

The underlying value of the Group's long-term investments is, in the opinion of the Directors, not less than the carrying value as at 31 December 2000.

20. OTHER NON-CURRENT ASSETS

Other non-current assets (consolidated) comprised:

	2000 \$'000	1999 \$'000
Shares in the Stock Exchange (see Note 18)	—	2,855
Shares in the Futures Exchange (see Note 18)	—	1,000
Membership in the Chinese Gold and Silver Exchange	1,280	1,280
Statutory deposits in respect of securities and commodities dealings	4,800	4,450
Others	1,399	—
	7,479	9,585

NOTES TO THE FINANCIAL STATEMENTS

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21. INVENTORIES

Inventories (consolidated) comprised:

	2000	1999
	\$'000	\$'000
Raw materials	128,188	114,342
Work-in-progress	80,835	87,953
Finished goods	62,387	86,586
	271,410	288,881

Certain inventories were held under import trust receipts bank loans (see Note 36).

22. LISTED INVESTMENTS

Listed investments (consolidated) comprised:

	2000	1999
	\$'000	\$'000
Listed shares, at market value		
— Hong Kong	174,881	98,931
— Elsewhere	668	—
	175,549	98,931

As at 31 December 2000, certain listed investments are pledged to secure banking facilities granted to the Group (see Note 36).

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23. PROPERTIES HELD FOR SALE

Properties held for sale are located in the PRC and are held under land use rights for a period from 50 to 70 years and expiring in 2024 and 2063. Details of properties held for sale as at 31 December 2000 are as follows:

Location	Group's interest	Expected use
Dongguan Lion City Liaobu Zhen Dongguan Guangdong Province the PRC	28.4%	Residential/commercial
Qiao Ya Xin Yue Xian Gang 2nd Road Tanggu, Tianjin the PRC	51%	Residential/commercial

24. TRADE RECEIVABLES

As at 31 December 2000, an aging analysis of trade receivables (net of provision for bad and doubtful debt) (consolidated) is as follows:

	2000 \$'000
1 month to 6 months	324,784
7 months to 12 months	6,925
	331,709

Sales of goods are largely on credit, except for new customers when trade deposits are normally required. The credit terms of trade debtors are defined in the respective sales agreements, usually from cash before delivery to 90 days after delivery.

The Group allows a credit period up to the settlement dates of respective securities, bullion and commodities transactions or a credit period mutually agreed with the contracting parties.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

25. SHORT-TERM BANK BORROWINGS

Short-term bank borrowings (consolidated) comprised:

	2000 \$'000	1999 \$'000
Bank overdrafts	68,146	72,804
Short-term loans	255,395	204,319
Import trust receipts bank loans	94,133	24,528
	417,674	301,651

Representing:

Secured	378,833	294,038
Unsecured	38,841	7,613
	417,674	301,651

Short-term bank borrowings bore interest at rates of 1.75% above the Hong Kong Interbank Offered Rate to 2.5% above the Hong Kong prime lending rate per annum. Refer to Note 36 for details of the Group's banking facilities.

Approximately \$179,520,000 (1999: \$182,000,000) of the short-term loans were secured by clients' (third parties) listed investments and were incurred in connection with the Group's securities and commodities broking business.

26. TRADE PAYABLES

As at 31 December 2000, an aging analysis of trade payables (consolidated) is as follows:

	2000 \$'000
1 month to 6 months	484,902
7 months to 12 months	7,926
Over 12 months	14,133
	506,961

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

27. LONG-TERM BANK LOANS

Details of long-term bank loans (secured) are:

	Consolidated		Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Amounts repayable within a period				
— not exceeding one year	22,823	48,937	3,144	4,061
— more than one year but not exceeding two years	19,567	48,224	3,286	2,458
— more than two years but not exceeding five years	22,173	17,668	—	—
— Over five years	2,100	—	—	—
	66,663	114,829	6,430	6,519
Less: Amounts repayable within one year included under current liabilities	(22,823)	(48,937)	(3,144)	(4,061)
	43,840	65,892	3,286	2,458

Long-term bank loans bore interest at 1.5% above the Hong Kong Interbank Offered Rate to 0.75% above the Hong Kong prime lending rate per annum. Refer to Note 36 for details of the Group's banking facilities.

28. DEFERRED TAXATION

Movements of deferred taxation (consolidated) are:

	2000	1999
	\$'000	\$'000
Beginning of year	1,216	1,226
Translation adjustments	37	—
Charged (credited) to income statement. (Note 6)	89	(10)
End of year	1,342	1,216

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

28. DEFERRED TAXATION (Continued)

Deferred taxation represented the taxation effect of accelerated depreciation for taxation purposes.

No deferred taxation on revaluation surpluses of land and buildings (see Note 31) is provided because the revaluations do not constitute timing differences. There was no significant unprovided deferred taxation as at 31 December 2000.

29. SHARE CAPITAL

	2000		1999	
	Number of shares '000	Nominal value \$'000	Number of shares '000	Nominal value \$'000
Authorised (Ordinary shares of \$0.1 each)	1,000,000	100,000	1,000,000	100,000
Issued and fully paid (Ordinary shares of \$0.1 each):				
Beginning of year	455,663	45,566	456,133	45,613
Repurchase of the Company's own shares	—	—	(470)	(47)
End of year	455,663	45,566	455,663	45,566

During the year, no shares were repurchased by the Company (1999: 470,000 ordinary shares).

30. WARRANTS AND SHARE OPTIONS

During the year, approximately 200,492,000 warrants were issued to the shareholders to subscribe for same number of ordinary shares of the Company at any time between 20 November 2000 and 22 November 2001 at an exercise price of \$2.2 per share. All of these 200,492,000 warrants remained outstanding as at 31 December 2000.

The Company has a share option scheme under which it may grant options to executive directors and employees of the Group to subscribe for shares in the Company, subject to a maximum of 10% of the issued share capital of the Company from time to time excluding for this purpose shares issued on the exercise of options. The subscription price will be determined by the Directors, and will not be less than the higher of the nominal value of the shares and 80% of the average closing price of the shares quoted on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of granting of the options.

As at 31 December 2000, the Company had 16,428,000 (1999: 16,498,000) outstanding share options (at subscription prices of \$0.88 to \$2.19 per share). During the year, 70,000 share options were cancelled and no share options were exercised.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

31. RESERVES

Movements of reserves (consolidated) are:

	2000								1999	
	Share premium	Capital redemption reserve	Capital reserve	Special reserve	Fixed asset revaluation reserve	Long-term investment revaluation reserve	Statutory reserves	Cumulative translation adjustments	Total	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	(b) \$'000	\$'000	\$'000	\$'000
Beginning of year	252,840	56	203,797	285,998	11,255	(140,948)	2,381	3,867	619,246	581,590
Cancellation of the Company's share	—	—	—	—	—	—	—	—	—	47
Goodwill arising from acquisition of subsidiaries	—	—	—	(10,348)	—	—	—	—	(10,348)	—
Goodwill arising from acquisition of additional interests in subsidiaries	—	—	—	(21,049)	—	—	—	—	(21,049)	15,573
Discount from acquisition of additional interests in an associate	—	—	—	1	—	—	—	—	1	—
Reversal of goodwill upon disposal of interest in associates	—	—	—	—	—	—	—	—	—	284
Reversal of discount upon disposal of interests in a subsidiary	—	—	—	(467)	—	—	—	—	(467)	—
Transfer to retained profit (a)	—	—	—	(12,076)	—	—	—	—	(12,076)	(2,600)
Reserve arising from placement of warrants by a subsidiary	—	—	—	46,983	—	—	—	—	46,983	—
Deficit on revaluation	—	—	—	—	—	(7,571)	—	—	(7,571)	(2,248)
Reversal of reserve upon disposal of long-term investments	—	—	—	—	—	6,434	—	—	6,434	25,344
Impairment in value of long-term investments	—	—	—	—	—	86,957	—	—	86,957	—
Transfer from retained profit	—	—	—	—	—	—	404	—	404	780
Translation adjustments	—	—	—	—	—	—	—	562	562	476
End of year	252,840	56	203,797	289,042	11,255	(55,128)	2,785	4,429	709,076	619,246
Company										
Beginning of year	252,840	56	—	486,429	—	—	—	—	739,325	739,278
Cancellation of shares	—	—	—	—	—	—	—	—	—	47
End of year	252,840	56	—	486,429	—	—	—	—	739,325	739,325

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

31. RESERVES (Continued)

Notes:

(a) During the year, the Group disposed of approximately 14.9% (1999: 3.1%) of its equity interest in Wah Shing International Holdings Limited ("WSIH"). A portion of the unrealised dilution gain recognised upon WSIH's initial public offering of shares in 1995, amounting to approximately \$12,076,000 (1999: \$2,600,000), was transferred from special reserve to retained profit.

(b) Statutory reserves:

The subsidiaries established in the PRC are required to make appropriation from their respective retained profits to certain statutory reserve funds in accordance with PRC laws and regulations. Movements of the statutory reserve funds were:

	2000		1999	
	General fund \$'000	Development fund \$'000	Total \$'000	Total \$'000
Beginning of year	657	1,724	2,381	1,601
Transfer from retained profit	202	202	404	780
End of year	859	1,926	2,785	2,381

Each of the group companies established in the PRC is required by the PRC Company Law to appropriate 10% of its statutory after-tax profit to a general fund until the balance of the fund reaches 50% of share capital and thereafter any further appropriation is optional. The general fund can be utilised to offset prior years' losses or to increase share capital on the condition that the general fund shall be maintained at a minimum of 25% of the share capital after such issuance.

In addition, each of the group companies established in the PRC is required by the PRC Company Law to appropriate a portion of its statutory after-tax profit to a development fund. The percentage of the appropriation is optional. The development fund is to be utilised for the betterment of business operations.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

32. NOTES TO THE STATEMENT OF CASH FLOWS

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

	2000	1999
	\$'000	\$'000
(Loss) Profit before taxation and minority interests	(62,405)	114,813
Interest income	(13,650)	(18,406)
Interest expense	26,427	17,954
Gain on disposal of interest in subsidiaries	(51,426)	(22,794)
Gain on disposal/dilution of interest in an associate	(31,099)	(16,345)
Gain on disposal of long-term listed investments	(166,943)	(5,083)
(Write-back of) Provision for impairment in value of development properties	(6,790)	10,790
Provision for impairment in value of long-term investments	130,669	1,000
Deficit (Surplus) on revaluation of investment property of a subsidiary	7,339	(6,000)
Share of loss of associates	40,721	60,011
Depreciation of fixed assets	82,639	70,668
Dividend income from listed investments	(1,230)	(289)
Dividend income from unlisted investments	(202)	(137)
Net loss on disposal of fixed assets	1,459	4,569
Decrease (Increase) in inventories	21,418	(80,869)
Increase in short-term listed investments	(76,618)	(27,297)
Increase in loans and advances	(3,431)	(157,755)
Decrease in properties held for sale	630	11,925
Decrease (Increase) in trade receivables, prepayments and deposits	98,080	(177,584)
Increase (Decrease) in bank balances under trust accounts	57,122	(36,356)
Decrease in time deposits under trust accounts	(54,999)	(26,023)
Decrease in due from related companies	—	23,916
(Decrease) Increase in bills payable, trade payables and accrued liabilities	(164,403)	262,674
Decrease in amounts due to related companies	—	(152,643)
	(166,692)	(149,261)

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

32. NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

b. Details of net assets acquired as a consequence of the acquisition of subsidiaries are as follows:

	2000 \$'000	1999 \$'000
Fixed assets	29,071	18,107
Investment properties	—	42,782
Investment in associates	—	36,010
Advances to associates	—	222,796
Long-term investments	—	9,023
Properties under development for sale	—	93,680
Properties held for sale	—	23,068
Inventories	3,947	5,682
Trade receivables	8,524	441
Prepayments and deposits	7,480	2,154
Amount due from former shareholder	3,472	—
Amount due from fellow subsidiaries	—	23,916
Cash and bank deposits	3,134	12,131
Short-term bank loans	(8,348)	(6,174)
Trade payables	(1,928)	(37,244)
Accrued liabilities	(3,073)	—
Amount due to fellow subsidiaries	—	(152,643)
Taxation payable	(144)	(175)
Long-term bank loans	—	(12,417)
Minority interests	(5,050)	(154,775)
Net assets acquired	37,085	126,362
Interest originally held by the Group	(29,681)	(103,199)
Goodwill (Discount) on acquisition	15,515	(7,590)
Exchange losses	(1,545)	—
Consideration paid	21,374	15,573
Net cash outflow arising from the acquisition is as follows:		
	2000 \$'000	1999 \$'000
Cash and bank deposits acquired	3,134	12,131
Short-term bank loans acquired	—	(6,174)
Cash consideration	(21,374)	(15,573)
Net cash outflow from acquisition	(18,240)	(9,616)

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

32. NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

c. Analysis of changes in financing during the year as follows:

	Share capital (include share premium) \$'000	Short-term loans with maturities over three months and long-term bank loans \$'000	Obligations under finance lease \$'000	Minority interests \$'000	Total \$'000
1 January 1999	298,453	134,074	14,381	481,728	928,636
Dividends paid to minority shareholders	—	—	—	(40,734)	(40,734)
Share of profits for the year	—	—	—	47,139	47,139
Repayment of capital element of finance leases	—	—	(11,418)	—	(11,418)
Share of minority interests in reserves	—	—	—	(411)	(411)
New bank loans	—	57,666	—	—	57,666
Repayment of bank loans	—	(48,655)	—	—	(48,655)
Attributable to acquisition of subsidiaries	—	18,591	—	154,775	173,366
Attributable to disposal of interests in subsidiaries	—	—	—	19,410	19,410
Attributable to acquisition of additional interests in subsidiaries	—	—	—	(43,278)	(43,278)
Repurchase of shares	(47)	—	—	—	(47)
Exchange differences	—	—	—	1,383	1,383
1 January 2000	298,406	161,676	2,963	620,012	1,083,057
Dividends paid to minority shareholders	—	—	—	(37,303)	(37,303)
Share of losses for the year	—	—	—	(27,608)	(27,608)
Inception of finance lease	—	—	3,147	—	3,147
Repayment of capital element of finance leases	—	—	(3,517)	—	(3,517)
Contribution from minority shareholders	—	—	—	8,207	8,207
Share of minority interests in reserves	—	—	—	35,234	35,234
New bank loans	—	117,406	—	—	117,406
Repayment of bank loans	—	(50,760)	—	—	(50,760)
Attributable to acquisition of subsidiaries	—	8,348	—	5,050	13,398
Attributable to disposal of interests in subsidiaries	—	—	—	55,232	55,232
Attributable to acquisition of additional interests in subsidiaries	—	—	—	(13,408)	(13,408)
Exchange differences	—	—	—	(475)	(475)
31 December 2000	298,406	236,670	2,593	644,941	1,182,610

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

32. NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

d. Analysis of cash and cash equivalents:

	2000	1999
	\$'000	\$'000
Cash and bank balances — general account balances	159,984	204,924
Bank overdrafts	(68,146)	(72,804)
Short-term loans with original maturities of less than three months	(179,520)	(182,000)
	(87,682)	(49,880)

33. COMMITMENTS

a. Capital commitments (consolidated):

As at 31 December 2000, the Group had capital commitments in Hong Kong and the PRC as follows:

	2000	1999
	\$'000	\$'000
Contracted but not provided for		
— Purchase of machinery and equipment	3,802	29,859
— Construction of factory buildings	2,616	5,986
— Acquisition of land use rights	16,617	29,367
	23,035	65,212
Authorised by the Directors but not contracted for		
— Property development projects	76,519	75,947
	99,554	141,159

As at 31 December 2000, the Company did not have any material capital commitments.

NOTES TO THE FINANCIAL STATEMENTS*(Amounts expressed in Hong Kong dollars unless otherwise stated)***33. COMMITMENTS (Continued)****b. Operating lease commitments (consolidated):**

Lease commitments in respect of rented premises under various non-cancellable operating lease agreements within the next twelve months are analysed as follows:

	2000 \$'000	1999 \$'000
Leases expiring		
— within one year	3,531	2,250
— within two to five years	19,200	19,734
— over five years	2,300	5,037
	25,031	27,021

As at 31 December 2000, the Company did not have any material operating lease commitments.

34. CONTINGENT LIABILITIES

Contingent liabilities (consolidated) not provided for in the financial statements were:

	2000 \$'000	1999 \$'000
Guarantees given to banks for banking facilities granted to FWIL, an associate	165,989	165,989
Guarantees given to banks in connection with letters of guarantee issued by the banks	5,500	5,500
	171,489	171,489

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

35. PENSION

Following the introduction of the Mandatory Provident Fund legislation in Hong Kong, the Group operates two pension schemes, one registered under the Occupational Retirement Scheme Ordinance ("the ORSO Scheme") and one registered under the Mandatory Provident Fund legislation ("the MPF Scheme").

Under the ORSO Scheme, the Group has arranged for its employees (including certain executive directors) provident funds under several defined contribution schemes managed by independent trustees. The employees make monthly contributions to the schemes in an amount of 5% of their basic salaries, while the Group makes monthly contributions to these schemes at rates of 5% to 7.5% of the employees' basic salaries. The employees are entitled to receive their entire contribution and the accrued interest thereon, and 100% of the employer's contribution and the accrued interest thereon upon retirement or leaving the Group after completing 10 years of service or at a reduced scale of between 20% to 90% after completing 2 to 9 years of service. The forfeited contributions made by the Group and related accrued interest are used to reduce the employer's contribution. This scheme is not available to new employees after 1 December 2000.

The MPF Scheme was set up on 1 December 2000 and is a defined contribution scheme managed by independent trustees. Members of the ORSO Scheme were given a one-time option to choose to transfer to the MPF Scheme or remain in the ORSO Scheme. Under the MPF Scheme, the Company and its employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. The contributions from employees and employer are subject to a cap of monthly earnings of \$20,000.

As stipulated by the PRC regulations, all retired employees of the Group's PRC subsidiaries are entitled to an annual pension equal to their basic annual salary upon retirement. The Group's PRC subsidiaries contribute to a state-sponsored retirement plan approximately 12% to 30% of the basic salary of their employees, and have no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions. The state-sponsored retirement plan is responsible for the entire pension obligations payable to retired employees.

During the year, the aggregate amount of employer's contribution made by the Group was approximately \$13,013,000 (1999: \$9,108,000) after deduction of forfeited contributions of approximately \$2,815,000 (1999: \$1,269,000).

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

36. BANKING FACILITIES AND PLEDGES OF ASSETS

As at 31 December 2000, the Group's banking facilities for overdrafts, loans and trade financing were secured by:

- (i) pledges over the Group's land and buildings, machinery and equipment and investment properties with a carrying value of approximately \$294,065,000 (1999: \$296,550,000) (see Notes 11.b, 12 and 14);
- (ii) pledges of the Group's investment in Wah Shing International Holdings Limited, with a carrying value of \$38,432,000 (1999: \$62,673,000);
- (iii) floating charges on the Group's inventories released under import trust receipts bank loans (see Note 21);
- (iv) pledges of the Group's bank deposits of approximately \$29,000,000 (1999: \$9,000,000); and
- (v) pledges of the listed investments of the Group and the clients of the Group placed on margin accounts in connection with the Group's securities and commodities brokerage business with an aggregate quoted market value as at 31 December 2000 of approximately \$639,076,000 (1999: \$719,580,000).

37. RELATED PARTY TRANSACTIONS

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.

Significant transactions with related parties are summarised below:

	2000	1999
	\$'000	\$'000
Interest income received from associates (see Note 16)	8,116	11,729
Management fee from associates (see Note 4)	5,300	1,525

In the opinion of the Directors, the above related party transactions were carried out in the usual course of business of the Group and on normal circumstances.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

38. SUBSEQUENT EVENT

On 31 March 2001, a subsidiary of the Group received notices of assessment from the Hong Kong Inland Revenue Department ("IRD") indicating additional Hong Kong profits tax of approximately \$49,986,000 in relation to the Group's profits for the year ended 31 December 1994. The Directors and the tax representative of the Group have requested IRD to give reasons for the alleged liability to additional profits tax and are not aware of the grounds on which the liability alleged to it. In this circumstances, the Directors will lodge an objection to the IRD in due course. Accordingly, no provision for Hong Kong profits tax has been made in the consolidated financial statements of the Group as at 31 December 2000 in respect of the additional assessment.

39. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.