

NOTES TO THE FINANCIAL STATEMENTS

31 December 2000

I. CORPORATE INFORMATION

The registered office of South China Online Limited is 28th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong.

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

- securities, bullion and commodities broking and trading
- margin financing and money lending
- corporate advisory and underwriting services
- property investment
- investment holding

In the opinion of the directors, the ultimate holding company is South China Holdings Limited, which is incorporated in the Cayman Islands.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Companies Ordinance. They have been prepared under the historical cost convention, except for the remeasurement of an investment property 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 31 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 power or issued share capital, or controls the composition of its 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)

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. 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 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 of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Land and building	2%
Leasehold improvements	2%
Furniture and equipment	10% – 25%
Motor vehicles	20%

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.

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 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 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 assets

Intangible assets, representing the eligibility rights to trade on or through The Stock Exchange of Hong Kong Limited (the "Stock Exchange Trading Rights") and the Hong Kong Futures Exchange Limited (the "Futures Exchange Trading Rights"), are stated at cost less accumulated amortisation. Cost was determined by the directors according to the methodology detailed in note 14.

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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other assets

Other assets held on a long term basis are stated at cost less provisions for any permanent diminutions in values deemed necessary by the directors, on an individual basis.

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.

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.

Listed 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. Unlisted securities are stated at their estimated fair values on an individual basis which are determined by the directors having regard to, inter alia, the prices of the most recent reported sales or purchases of the securities or comparison of price/earnings ratios and dividend yields of the securities with those of similar listed securities, with allowance made for the lower liquidity of the unlisted securities.

The gains or losses arising from changes in the fair values of securities are dealt with as movements in the long term investment revaluation reserve, until the securities are sold, collected, or otherwise disposed of, or until the securities are determined to be impaired, when the cumulative gain or loss derived from the securities recognised in the long term investment revaluation reserve, together with the amount of any further impairment, is charged to the profit and loss account for the period in which the impairment arises. Where the circumstances and events which led to an impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged and any appreciation in fair values is credited to the profit and loss account to the extent of the amount previously charged.

Short term investments

Short term investments are investments in 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 values of securities are credited or charged to the profit and loss account for the period in which they arise.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 monetary assets and liabilities of overseas subsidiaries at the balance sheet date are translated at the applicable rates of exchange ruling at that date. The resulting translation differences are dealt with in the exchange equalisation reserve.

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 all its employees. The Scheme became effective on 1 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 except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the Scheme.

Prior to the Scheme being effective, the Group operated a defined contribution 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 benefits 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. This scheme was terminated with effect from 1 December 2000.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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:

- (a) commission and brokerage income, accrued on all broking transactions on a trade date basis;
- (b) profit or loss on trading of securities, bullion and futures contracts, on a trade date basis;
- (c) dividend income, when the shareholders' right to receive payment is established;
- (d) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (e) income from the rendering of services, 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 services is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction; and
- (f) rental income, on an accrual basis.

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.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represents 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.

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3. TURNOVER

Turnover represents commission and brokerage income from securities, bullion and futures contracts broking; profit or loss on trading of securities, bullion and futures contracts; dividend income; interest income; corporate advisory fees; commission income from shares underwriting and placing; and rental income, after elimination of all significant intercompany transactions.

Revenue from the following activities has been included in turnover:

	GROUP	
	2000	1999
	HK\$'000	HK\$'000
Commission and brokerage income	144,454	115,054
Profit on trading of securities, bullion and futures contracts, net	48,738	5,530
Dividend income	1,432	426
Interest income	63,139	27,581
Rendering of services	7,404	10,917
Rental income	372	342
	265,539	159,850

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4. PROFIT FROM OPERATING ACTIVITIES

Profit from operating activities is arrived at after charging/(crediting):

	Notes	GROUP	
		2000 HK\$'000	1999 HK\$'000
Cost of services provided		80,254	53,834
Auditors' remuneration		639	573
Depreciation		7,037	3,279
Loss on disposal of fixed assets		34	59
Amortisation of intangible assets		135	—
Operating lease rentals in respect of land and buildings		12,024	9,349
Provision/(write-back of provisions) for bad and doubtful debts:			
Loans and advances		27,703	(33,114)
Trade debtors		3,125	—
		30,828	(33,114)
Staff costs (including directors' remuneration):			
Retirement benefits scheme contributions		2,236	2,015
Less: Forfeited contributions		(1,083)	(494)
Net retirement benefits contributions	(a)	1,153	1,521
Wages and salaries		64,277	46,135
		65,430	47,656
Interest expense for margin financing and money lending operations:			
Bank loans and overdrafts wholly repayable within five years		25,252	11,487
Customers		8,284	3,153
		33,536	14,640
Foreign exchange losses, net		360	520
Gain on disposal of long term investments	(b)	(163,870)	(5,083)
Profit on securities trading, net		(39,000)	(3,449)
Interest income:	(c)		
Banks and financial institutions		(10,385)	(5,214)
Customers		(51,890)	(22,284)
Intermediate holding company		(2,666)	(825)
Fellow subsidiaries		(864)	(83)
		(65,805)	(28,406)
Dividend income:			
Listed investments		(1,230)	(289)
Unlisted investments		(202)	(137)
		(1,432)	(426)
Rental income, net of outgoings		(359)	(321)

NOTES TO THE FINANCIAL STATEMENTS

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4. PROFIT FROM OPERATING ACTIVITIES (Continued)

Notes:

- (a) At 31 December 2000, there were no forfeited contributions available for the Group to reduce its contributions to the retirement benefits scheme in future years (1999: Nil).
- (b) The gain on disposal of long term investments included loss in fair value of HK\$2,542,000 (1999: HK\$13,639,000), which was recognised in the long term investment revaluation reserve in prior year (note 26).
- (c) The Group's interest income was derived principally from margin financing and money lending operations, except for the interest income from an intermediate holding company, details of which are set out in notes 20 and 31 to the financial statements, respectively.

5. FINANCE COSTS

	GROUP	
	2000	1999
	HK\$'000	HK\$'000
Interest expense:		
Bank overdrafts	—	2
Mortgage loan	2,705	3,820
	2,705	3,822

6. DIRECTORS' REMUNERATION

	GROUP					
	Executive		Non-executive		Independent non-executive	
	2000	1999	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fees	50	50	10	—	62	20
Other emoluments:						
Salaries, allowances and benefits in kind	8,205	7,369	—	—	32	28
Retirement benefits scheme contributions	327	240	—	—	—	—
Bonuses paid and payable	272	—	—	—	—	—
	8,854	7,659	10	—	94	48

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6. DIRECTORS' REMUNERATION (Continued)

The remuneration of the directors fell within the following bands:

	Number of directors	
	2000	1999
Nil – HK\$1,000,000	4	3
HK\$1,000,001 – HK\$1,500,000	3	4
HK\$1,500,001 – HK\$2,000,000	1	—
HK\$2,500,001 – HK\$3,000,000	1	1
	9	8

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

No value is included in the directors' remuneration in respect of the 20,000,000 (1999: 40,000,000) 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.

7. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five (1999: four) executive directors, details of whose remuneration are disclosed in note 6 above. The details of the remuneration of the remaining highest-paid, non-director employee in prior year are as follows:

	GROUP	
	2000	1999
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	—	1,626
Retirement benefits scheme contributions	—	785
Bonuses paid and payable	—	—
	—	2,411

The remuneration of the highest-paid, non-director employee fell in prior year within the following bands:

	Number of employee	
	2000	1999
HK\$2,000,001 – HK\$2,500,000	—	1

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8. TAX

	GROUP	
	2000	1999
	HK\$'000	HK\$'000
Provision for the year:		
Hong Kong	1,500	1,503
Overseas	162	151
Rebate on Hong Kong profits tax paid in prior year	—	(545)
Underprovision in prior year	—	340
	1,662	1,449
Deferred tax (note 24)	(476)	(10)
Tax charge for the year	1,186	1,439

Hong Kong profits tax has been provided at the rate of 16% (1999: 16%) on the estimated assessable profits arising in or derived from Hong Kong during the year. 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, practices and interpretations in respect thereof.

9. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$50,558,000 (1999: HK\$23,912,000).

10. DIVIDENDS

	2000	1999
	HK\$'000	HK\$'000
Interim:		
0.525 HK cent (1999: 0.05 HK cent) per ordinary share	25,526	2,431
Proposed final:		
0.6 HK cent (1999: 0.45 HK cent) per ordinary share	29,174	21,880
	54,700	24,311

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11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders of HK\$23,678,000 (1999: HK\$63,803,000) and the weighted average of 4,862,194,240 ordinary shares (1999: 4,862,255,042 ordinary shares) in issue during the year.

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

12. FIXED ASSETS

	Land and Building HK\$'000	Leasehold improvements HK\$'000	Furniture and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
GROUP					
Cost:					
At beginning of year	—	8,104	14,823	3,316	26,243
Exchange realignment	—	(47)	(19)	—	(66)
Additions	—	5,131	11,034	—	16,165
Transfer from investment property (note 13)	100,000	—	—	—	100,000
Disposals	—	(514)	(144)	—	(658)
At 31 December 2000	100,000	12,674	25,694	3,316	141,684
Accumulated depreciation:					
At beginning of year	—	4,742	10,255	3,035	18,032
Exchange realignment	—	(15)	(12)	—	(27)
Provided during the year	1,167	2,620	3,145	105	7,037
Disposals	—	(363)	(3)	—	(366)
At 31 December 2000	1,167	6,984	13,385	3,140	24,676
Net book value:					
At 31 December 2000	98,833	5,690	12,309	176	117,008
At 31 December 1999	—	3,362	4,568	281	8,211

The Group's land and building is situated in Hong Kong and is held under a long term lease. At 31 December 2000, this building was pledged to secure banking facilities granted to the Group (note 28).

NOTES TO THE FINANCIAL STATEMENTS

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12. FIXED ASSETS (Continued)

	Leasehold improvements <i>HK\$'000</i>	Furniture and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
COMPANY				
Cost:				
At beginning of year and 31 December 2000	2,449	8,203	3,009	13,661
Accumulated depreciation:				
At beginning of year	2,388	8,127	2,958	13,473
Provided during the year	23	76	44	143
At 31 December 2000	2,411	8,203	3,002	13,616
Net book value:				
At 31 December 2000	38	—	7	45
At 31 December 1999	61	76	51	188

13. INVESTMENT PROPERTY

	GROUP	
	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
At beginning of year	91,000	85,000
Surplus on revaluation	9,000	6,000
Transfer to fixed assets (<i>note 12</i>)	(100,000)	—
At 31 December	—	91,000

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.

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14. INTANGIBLE ASSETS

	GROUP	
	2000	1999
	HK\$'000	HK\$'000
Cost:		
Transfer from other assets and at 31 December	1,619	—
Accumulated amortisation:		
Provided during 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 HK\$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.

The carrying costs of the previously held shares in the Stock Exchange and Futures Exchange (note 15) have been apportioned to the Stock Exchange Trading Rights, the Futures Exchange Trading Rights and the HKEC Shares (note 17) 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 treated under the accounting policy as set out in note 2 to the financial statements.

15. OTHER ASSETS

	GROUP	
	2000	1999
	HK\$'000	HK\$'000
Shares in the Stock Exchange*	—	2,855
Shares in the Futures Exchange*	—	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
Club debentures	360	360
	6,440	9,945

* Movements during the year are set out in details in note 14 to the financial statements.

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16. INTERESTS IN SUBSIDIARIES

	COMPANY	
	2000	1999
	HK\$'000	HK\$'000
Unlisted shares, at cost	60,359	50,729
Amounts due from subsidiaries	481,516	375,234
Amounts due to subsidiaries	(2,712)	(1,589)
	539,163	424,374
Provisions for diminutions in values	(118,100)	(118,100)
	421,063	306,274

The amounts due from/to subsidiaries are unsecured, interest-free and have no specific terms of repayment.

Particulars of the principal subsidiaries are as follows:

Name of company	Place of incorporation and operations	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Group		Principal activities
			2000	1999	
Kingwise Secretarial Services Limited	Hong Kong	HK\$2	100	100	Futures contracts trading
Polyluck Trading Limited	Hong Kong	HK\$2	100	100	Property holding
South China Capital Limited	Hong Kong	HK\$2	100	100	Provision of corporate finance advisory services
South China Commodities Limited	Hong Kong	HK\$10,000,000	100	100	Commodities broking
South China Finance Company Limited	Hong Kong	HK\$1,000,000	100	100	Margin financing

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16. INTERESTS IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation and operations	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Group		Principal activities
			2000	1999	
South China Finance and Management Limited	Hong Kong	HK\$2	100	100	Shares dealing and provision of management services
South China Finance (Nominees) Limited	Hong Kong	HK\$2	100	100	Provision of nominee services
South China Financial Credits Limited	Hong Kong	HK\$500,000	100	100	Money lending
South China Precious Metal Limited	Hong Kong	HK\$2	100	100	Bullion broking
South China Research Limited	Hong Kong	HK\$600,000	100	100	Research publication
South China Securities Limited	Hong Kong	HK\$10,000,000	100	100	Securities broking and margin financing
South China Securities (UK) Limited	United Kingdom	GBP200,000	100	100	Provision of securities trading services

Except for Polyluck Trading Limited, all principal subsidiaries are directly held by the Company.

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

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17. INVESTMENTS

Long term investments

	GROUP	
	2000	1999
	HK\$'000	HK\$'000
Listed equity investments in Hong Kong, at market value	34,091	53,098
Unlisted equity investment, at fair value	—	2,848
	34,091	55,946

Short term investments

	GROUP	
	2000	1999
	HK\$'000	HK\$'000
Listed equity investments, at market value:		
Hong Kong	165,543	85,724
Elsewhere	668	—
	166,211	85,724

At 31 December 2000, certain listed equity investments were pledged to secure banking facilities granted to the Group (note 28).

18. LOANS AND ADVANCES

	GROUP	
	2000	1999
	HK\$'000	HK\$'000
Loans and advances to customers	370,015	339,697
Provisions for bad and doubtful debts	(86,405)	(58,702)
	283,610	280,995
Market value of collateral at 31 December	518,896	890,388

At 31 December 2000, certain collateral of customers was pledged to secure banking facilities granted to the Group (note 28).

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18. LOANS AND ADVANCES (Continued)

The maturity profile of loans and advances to customers at the balance sheet date is analysed into the remaining periods to their contractual maturity dates as follows:

	GROUP	
	2000	1999
	HK\$'000	HK\$'000
Repayable:		
On demand	256,476	280,995
Within three months	5,377	—
Within one year but over three months	16,298	—
Within five years but over one year	5,459	—
	283,610	280,995
Portion classified as current assets	278,151	280,995
Portion classified as long term loans receivable under non-current assets	5,459	—

19. TRADE DEBTORS

The Group's trade debtors arose from securities, bullion and commodities dealings and provision of corporate advisory and underwriting services.

The ageing analysis of the Group's trade debtors net of provision at the balance sheet date is as follows:

	GROUP	
	2000	1999
	HK\$'000	HK\$'000
Current to 90 days	23,051	206,916

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.

20. AMOUNT DUE FROM AN INTERMEDIATE HOLDING COMPANY

The amount due from Tek Lee Finance and Investment Corporation Limited is unsecured, bears interest at the Hong Kong Prime Rate (1999: Hong Kong Prime Rate) and has no specific terms of repayment.

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21. AMOUNT DUE FROM A FELLOW SUBSIDIARY

The amount due from Onswind Limited arose in the Group's ordinary course of business and is secured on marketable securities, bears interest at 4% over the Hong Kong Prime Rate and is repayable on demand.

22. TRADE CREDITORS

The Group's trade creditors arose from securities, bullion and commodities dealings and provision of corporate advisory and underwriting services.

The ageing analysis of the Group's trade creditors at the balance sheet date is as follows:

	GROUP	
	2000	1999
	HK\$'000	HK\$'000
Current to 90 days	166,969	360,341

23. INTEREST-BEARING BANK BORROWINGS

	GROUP	
	2000	1999
	HK\$'000	HK\$'000
Bank overdrafts, secured (note 28)	48,392	67,196
Bank loans, secured (note 28)	205,320	218,900
	253,712	286,096
Bank loans and overdrafts repayable:		
Within one year or on demand	253,712	260,296
In the second year	—	25,800
	253,712	286,096
Portion classified as current liabilities	253,712	260,296
Long term portion	—	25,800

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24. DEFERRED TAX

	GROUP		COMPANY	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At beginning of year	490	502	462	462
Exchange realignment	(2)	(2)	—	—
Credit for the year (note 8)	(476)	(10)	(462)	—
At 31 December	12	490	—	462

The principal components of the Group's net deferred tax asset which has not been recognised in the financial statements are as follows:

	GROUP		COMPANY	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accelerated depreciation	1,120	491	—	—
Tax losses	(29,480)	(19,381)	(290)	(355)
	(28,360)	(18,890)	(290)	(355)

25. SHARE CAPITAL

Issued capital

	COMPANY	
	2000	1999
	HK\$'000	HK\$'000
<i>Authorised:</i>		
8,000,000,000 ordinary shares of HK\$0.025 each	200,000	200,000
<i>Issued and fully paid:</i>		
4,862,194,240 ordinary shares of HK\$0.025 each	121,554	121,554

In prior year, the Company issued 52,800 ordinary shares pursuant to the exercise of the Company's warrants for an aggregate cash consideration of HK\$14,784; and repurchased and cancelled 674,000 ordinary shares at an aggregate consideration of HK\$23,603.

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25. SHARE CAPITAL (Continued)

Warrants

During the year, the Company issued 970,000,000 warrants at a price of HK\$0.065 each. These warrants entitle the holders to subscribe in cash for fully paid ordinary shares of HK\$0.025 each in the Company at a subscription price of HK\$0.185 per share at any time during the period from 18 February 2000 to 17 February 2001.

At the balance sheet date, all of the above warrants remained outstanding. The exercise in full of the subscription rights attached to these warrants would, under the present capital structure of the Company, result in the issue of 970,000,000 additional shares of the Company for aggregate proceeds of HK\$179,450,000, before the related issue expenses.

Subsequent to the balance sheet date on 17 February 2001, these warrants remained unexercised and lapsed accordingly.

Share options

On 12 July 1993, the Company adopted a share option scheme (the "Scheme") under which the directors may, at their discretion, grant share options to any director or employee of the Company or its subsidiaries to subscribe for ordinary shares in the Company. The maximum number of shares in respect of which options may be granted may not exceed 10% of the issued share capital of the Company from time to time. The Scheme will remain in force for a period of ten years from the date of adoption.

At 1 January 2000, the Company had 290,000,000 outstanding share options which entitle the holders to subscribe in cash for fully paid ordinary shares of HK\$0.025 each in the Company.

During the year, the Company granted 20,000,000 and 15,000,000 share options to a director and two employees, respectively. These share options entitle the holders to subscribe in cash for fully paid ordinary shares in the Company at a subscription price of HK\$0.238 per share (subject to adjustment) at any time during the period from 9 March 2000 to 11 July 2003.

At the balance sheet date, the Company had 325,000,000 outstanding share options which entitle the holders to subscribe in cash for fully paid ordinary shares in the Company at various subscription prices ranging from HK\$0.1298 to HK\$0.3189 per share (subject to adjustment) on or before 11 July 2003. The exercise in full of such share options would, under the present capital structure of the Company, result in the issue of 325,000,000 additional shares of the Company for aggregate proceeds of HK\$87,313,000, before the related issue expenses.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2000

26. RESERVES

GROUP

	Share premium account HK\$'000	Warrant subscription reserve HK\$'000	Capital redemption reserve HK\$'000	Long term investment revaluation reserve HK\$'000	Total HK\$'000
At 1 January 1999	201,271	—	1,466	(212,126)	(9,389)
Premium on issue of new shares	14	—	—	—	14
Transfer from profit and loss account on cancellation of repurchased shares	—	—	17	—	17
Increase in fair values of long term investments, net	—	—	—	3,652	3,652
Transfer to profit and loss account on disposal of long term investments (note 4(b))	—	—	—	13,639	13,639
At 31 December 1999 and beginning of year	201,285	—	1,483	(194,835)	7,933
Placement of warrants	—	63,050	—	—	63,050
Decrease in fair values of long term investments, net	—	—	—	(9,811)	(9,811)
Transfer to profit and loss account: On disposal of long term investments (note 4(b))	—	—	—	2,542	2,542
Impairment in fair values of long term investments	—	—	—	107,330	107,330
At 31 December 2000	201,285	63,050	1,483	(94,774)	171,044

NOTES TO THE FINANCIAL STATEMENTS

31 December 2000

26. RESERVES (Continued)**COMPANY**

	Share premium account <i>HK\$'000</i>	Warrant subscription reserve <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 1999	201,271	—	1,466	202,737
Premium on issue of new shares	14	—	—	14
Transfer from profit and loss account on cancellation of repurchased shares	—	—	17	17
At 31 December 1999 and beginning of year	201,285	—	1,483	202,768
Placement of warrants	—	63,050	—	63,050
At 31 December 2000	201,285	63,050	1,483	265,818

NOTES TO THE FINANCIAL STATEMENTS

31 December 2000

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2000	1999
	HK\$'000	HK\$'000
Profit from operating activities	27,569	69,064
Surplus on revaluation of an investment property	(9,000)	(6,000)
Gain on disposal of long term investments	(163,870)	(5,083)
Impairment in fair values of long term investments	107,330	—
Decrease/(increase) in fair values of short term investments	49,817	(5,780)
Provision/(write-back of provisions) for bad and doubtful debts	30,828	(33,114)
Dividend income	(1,432)	(426)
Interest income, excluding that derived from margin financing and money lending operations	(2,666)	(825)
Depreciation	7,037	3,279
Loss on disposal of fixed assets	34	59
Amortisation of intangible assets	135	—
Exchange realignment, net	37	14
Decrease/(increase) in cash held on behalf of customers	2,123	(62,379)
Increase in short term investments	(130,304)	(24,596)
Increase in loans and advances	(30,318)	(124,049)
Decrease/(increase) in trade debtors	180,740	(172,307)
Decrease/(increase) in other debtors, prepayments and deposits	13,778	(13,096)
Increase in amount due from an intermediate holding company	(19,692)	(23,580)
Decrease/(increase) in amounts due from fellow subsidiaries	(9,885)	809
Increase/(decrease) in trade creditors	(193,372)	246,491
Decrease in other creditors and accruals	(7,940)	(5,938)
Net cash outflow from operating activities	(149,051)	(157,457)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2000

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing during the year:

	Share capital (including share premium account) HK\$'000	Warrant subscription reserve HK\$'000	Long term bank loan HK\$'000	Total HK\$'000
At 1 January 1999	322,841	—	60,600	383,441
Cash outflow from financing activities, net	(2)	—	(23,700)	(23,702)
At 31 December 1999 and beginning of year	322,839	—	36,900	359,739
Cash inflow from financing activities, net	—	63,050	(11,100)	51,950
At 31 December 2000	322,839	63,050	25,800	411,689

(c) Major non-cash transactions

- (i) As set out in notes 12 and 13 to the financial statements, the Group's investment property was transferred to fixed assets at a carrying value of HK\$100,000,000 during the year.
- (ii) As further explained in note 14 to the financial statements, the Group received four Stock Exchange Trading Rights, five Futures Exchange Trading Rights and 10,187,500 HKEC Shares in exchange for its shares previously held in the Stock Exchange and the Futures Exchange. The carrying costs of the previously held shares have been apportioned to the Stock Exchange Trading Rights, Futures Exchange Trading Rights and the HKEC Shares on the basis of their respective estimated fair values on 6 March 2000.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2000

28. PLEDGE OF ASSETS

At the balance sheet date, the Group had pledged the following assets to secure general banking facilities granted to the Group:

- (a) A time deposit of HK\$1,500,000 (1999: HK\$1,500,000) was pledged to a bank to secure general banking facilities granted to a subsidiary.
- (b) A land and building with a net book value of HK\$98,833,000 (1999: an investment property with a carrying value of HK\$91,000,000) was pledged to a bank to secure general banking facilities granted to a subsidiary.

Apart from the above, listed equity investments belonging to the Group, fellow subsidiaries and clients with a total market value of approximately HK\$639,076,000 (1999: HK\$719,580,000) were pledged to banks to secure loans and overdraft facilities granted to two subsidiaries.

At the balance sheet date, the Company did not have any other material assets pledged to other independent third party.

29. CONTINGENT LIABILITIES

At the balance sheet date, the Group's contingent liabilities not provided for in the financial statements were as follows:

	GROUP		COMPANY	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	—	—	769,900	569,900
Guarantees given to banks in connection with letters of guarantee issued by the banks	5,500	5,500	5,500	5,500
	5,500	5,500	775,400	575,400

In addition, the Company had guarantees given to financial institutions for commodities and bullion trading facilities granted to two subsidiaries to the extent of approximately HK\$11,970,000 (1999: HK\$11,937,800) which remained unutilised at 31 December 2000 (1999: Nil).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2000

30. COMMITMENTS

- (a) At the balance sheet date, the Group had the following capital commitments:

	GROUP	
	2000	1999
	HK\$'000	HK\$'000
<hr/>		
Contracted but not provided for in respect of:		
Lease improvements	—	301
Office equipment	—	321
	<hr/>	
	—	622
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At 31 December 2000, the Company did not have any material capital commitments (1999: Nil).

- (b) Annual commitments under non-cancellable operating leases in respect of land and buildings in the forthcoming year are as follows:

	GROUP	
	2000	1999
	HK\$'000	HK\$'000
<hr/>		
Leases expiring:		
Within one year	2,034	726
In the second to fifth years, inclusive	11,603	11,055
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	13,637	11,781
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At 31 December 2000, the Company did not have any material commitments under non-cancellable operating leases (1999: Nil).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2000

31. RELATED PARTY TRANSACTIONS

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

	Notes	2000 HK\$'000	1999 HK\$'000
Consulting and servicing fees paid to fellow subsidiaries	(a)	28,000	—
Commission and brokerage income received from:	(b)		
Fellow subsidiaries		1,449	755
Directors and related parties		756	1,387
Interest income received from:			
Intermediate holding company	(c)	2,666	825
Fellow subsidiaries	(d)	864	83
Rental income received from a fellow subsidiary	(e)	372	342
Corporate advisory fees and underwriting commission income received from a fellow subsidiary	(f)	670	—

Notes:

- (a) The consulting and servicing fees related to the advisory and management services provided by fellow subsidiaries for e-commerce consultation on feasibility's studies, infrastructure planning, core engine specification, security specification, building up of internet trading platform and continuing maintenance; marketing and promotional services provided for image design, color separation, type setting, printing, publishing, and all necessary marketing and promotional arrangements through different media. These fees were calculated on terms mutually agreed by the contracting parties.
- (b) The commission and brokerage income related to the Group's securities broking business and was calculated by reference to commission and brokerage charged to third party customers.
- (c) The interest income related to cash advances to Tek Lee Finance and Investment Corporation Limited, details of which are set out in note 20 to the financial statements.
- (d) The interest income related to the Group's margin financing business and was calculated at the rate of 4% over the Hong Kong Prime Rate (1999: 3% to 5% over the Hong Kong Prime Rate).
- (e) The rental income related to the leasing of an investment property to South China Information and Technology Limited and was calculated by reference to market rentals.
- (f) The corporate advisory fees and underwriting commission income related to the Group's corporate advisory and share underwriting business and were calculated by reference to rates charged to third party customers.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2000

32. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, on 19 April 2001, the Company issued 972,438,848 warrants (the "Bonus Warrants") to shareholders whose names appear on the register of members of the Company on 12 April 2001 on the basis of one bonus warrant for every five existing ordinary shares held.

The Bonus Warrants entitle the holders to subscribe in cash for fully paid ordinary shares of HK\$0.025 each in the Company at a subscription price of HK\$0.11 per share (subject to adjustment) at any time during the period from 18 April 2001 to 18 April 2002. The exercise in full of the subscription rights attached to the Bonus Warrants would result in the issue of 972,438,848 shares, which represents approximately 16.67% of the issued share capital of the Company as enlarged by the allotment and issue of shares, for aggregate proceeds of HK\$106,968,273, before the related issue expenses.

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 24 April 2001.