

1. Corporate information

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

- property holding
- investment activities
- provision of loan finance
- securities broking
- provision of IT training and software development services

In the opinion of the directors, the ultimate holding company is Kong Fa Holding Limited, which is incorporated in the British Virgin Islands.

2. Summary of significant accounting policies

Basis of preparation

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

Basis of consolidation

The consolidated financial statements incorporate 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.

Goodwill

Goodwill arising on consolidation of subsidiaries represents the excess purchase consideration paid over the fair values ascribed to the net underlying assets acquired. Goodwill arising on consolidation of subsidiaries is amortised on the straight-line basis over a period of five years to the profit and loss account.

2. Summary of significant accounting policies *(continued)*

Goodwill *(continued)*

On disposal of subsidiaries, the attributable amount of unamortised goodwill is realised and included in the calculation of gain or loss on disposal.

Trading rights

Trading rights, representing the eligibility right to trade on The Stock Exchange of Hong Kong Limited, are stated at cost less accumulated amortisation. Cost was determined by the directors according to the methodology detailed in note 15. Amortisation is calculated on the straight-line basis to write off the cost of the trading rights over its estimated useful life of ten years.

Fixed assets and depreciation

Fixed assets, other than investment properties, 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.

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.

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 held under long term leases	Over the remaining lease terms
Buildings	4%
Leasehold improvements	Over the unexpired terms of the leases or the estimated useful life, whichever is shorter
Office furniture and equipment	15% – 33 $\frac{1}{3}$ %
Motor vehicle	17%

2. Summary of significant accounting policies *(continued)*

Investment properties

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

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.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of the assets remain with the lessor 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.

Self-developed software

Self-developed software is stated at cost less accumulated amortisation and is amortised over five years from the date of acquisition on the straight-line basis.

Long term investments

Long term investments are non-trading investments in unlisted equity securities intended to be held on a long term basis and are stated in the balance sheet at cost less provisions for any diminutions in values, on an individual investment basis. The carrying amounts of the long term investments are reviewed as at the balance sheet date in order to assess whether the fair values have declined below the carrying amounts. When such a decline has occurred, the carrying amount is reduced to the fair value unless there is evidence that the decline is temporary. The amount of the reduction is recognised as an expense in the profit and loss account.

2. Summary of significant accounting policies *(continued)*

Short term investments

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

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 resulting translation differences are included in the exchange fluctuation reserve.

Provident fund

The Group operates mandatory provident fund schemes for those employees who are eligible to participate in the schemes. 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 schemes. The assets of the schemes 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 schemes.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or to 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.

2. Summary of significant accounting policies *(continued)*

Cash equivalents

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

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) the sale of investments, commission and brokerage for securities dealing and settlement income, on a transaction date basis;
- (b) rental income, on a time proportion basis over the lease terms;
- (c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (d) other commission, on an accrual basis when the services are rendered;
- (e) dividend income, when the shareholders' right to receive payment is established; and
- (f) management fees, IT training and software development services income, when the related services are rendered.

3. Turnover and revenue

Turnover represents income from the sale of short term investments, rental income, interest income, brokerage commissions, other commissions, dividend income and IT training and software development service income.

3. Turnover and revenue *(continued)*

The Group's turnover and revenue for the year arose from the following activities:

	2000 HK\$'000	1999 HK\$'000
Sale of short term investments	14,475	4,838
Rental income	10,882	1,897
Interest income from loans receivable	1,475	2,405
Brokerage commissions	8,624	5,319
Other commissions	277	-
Dividend income from listed investments	54	70
IT training and software development service income	3,643	1,979
Turnover	<u>39,430</u>	<u>16,508</u>
Management fees	633	548
Surplus on revaluation of investment properties reversing deficit previously charged to profit and loss account	11,386	-
Bank interest income	<u>358</u>	<u>2,284</u>
Other revenue	<u>12,377</u>	<u>2,832</u>
Total revenue for the year	<u><u>51,807</u></u>	<u><u>19,340</u></u>

4. Profit from operating activities

The Group's profit from operating activities is arrived at after charging/(crediting):

	2000 HK\$'000	1999 HK\$'000
Auditors' remuneration	429	315
Depreciation		
Owned fixed assets	2,820	1,224
Leased fixed assets	63	65
Amortisation of intangible assets	2,321	784
Loss on disposal of fixed assets	43	-
Provision for doubtful debts	240	18
Provision for impairment in fair values of short term listed investments	1	70
Operating lease rentals for land and buildings	1,270	418
Staff costs: *		
Wages and salaries	11,922	7,696
Pension contributions	427	58
	12,349	7,754
Surplus on revaluation of investment properties	(11,386)	-
Gain on disposal of short term listed investments	(10,282)	(3,113)
Dividend income from listed investments	(54)	(70)
Foreign exchange gains, net	(49)	(1)
Rental income, net	(7,003)	(1,362)
Interest income from loans receivable	(1,475)	(2,405)
Bank interest income	(358)	(2,284)
	(11,386)	(3,113)

* Includes directors' remuneration, further details of which are provided in note 6 to the financial statements.

5. Finance costs

	Group	
	2000 HK\$'000	1999 HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	4,465	5,421
Interest on finance leases	8	3
	4,473	5,424
	4,473	5,424

6. Directors' remuneration

Directors' remuneration disclosed pursuant to Section 161 of the Companies Ordinance and the Listing Rules is as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Fees:		
Executive directors	-	-
Independent non-executive directors	118	120
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	118	120
Salaries, allowances and benefits in kind:		
Executive directors	1,499	2,457
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	1,617	2,577
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The remuneration of the directors fell within the following bands:

	2000	1999
	Number of directors	Number of directors
Nil – HK\$1,000,000	6	5
HK\$1,000,001 – HK\$1,500,000	-	1
	<hr/>	
	6	6
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There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

7. Five highest paid employees

The five highest paid employees during the year included two (1999: two) executive directors, further details of whose remuneration are disclosed in note 6 to the financial statements. The details of the remuneration of the remaining three (1999: three) non-directors, highest paid employees are set out below.

	Group	
	2000	1999
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	2,223	1,565

The remuneration of the non-directors, highest paid employees fell within the following band:

	2000	1999
	Number of employees	Number of employees
Nil – HK\$1,000,000	2	3
HK\$1,000,001 – HK\$1,500,000	1	–
	<u>3</u>	<u>3</u>

8. Tax

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

	Group	
	2000	1999
	HK\$'000	HK\$'000
Hong Kong	301	81
Tax rebate relating to prior year	–	(36)
Elsewhere	2	(1)
Deferred tax – note 29	706	–
	<u>1,009</u>	<u>44</u>
Tax charge for the year	<u>1,009</u>	<u>44</u>

9. Net loss from ordinary activities attributable to shareholders

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$11,931,000 (1999: HK\$12,010,000).

10. Prior year adjustment

As specified by SSAP 24, the full effects of the Group's change in accounting policy which occurred in prior year, concerning its investments on the restated profit and loss account for the year ended 31 December 1998 were represented by a decrease in the loss for the year of HK\$5,539,000 and a decrease in retained profits brought forward of HK\$7,643,000 in 1998. The effect of this change on the balance sheet as at 31 December 1998 was a reclassification of a long term investment of HK\$3,857,000 to a short term investment and an additional provision for impairment in fair values of HK\$2,104,000 made against its carrying value.

11. Earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the net profit/(loss) from ordinary activities attributable to shareholders for the year of HK\$7,024,000 (1999: loss HK\$4,491,000) and on the weighted average of 530,790,000 (1999: 345,670,000) shares in issue during the year.

The diluted earnings per share for the year ended 31 December 2000 has not been calculated as the exercise price of the Company's warrants was higher than the average market price of the ordinary shares for the year.

No diluted loss per share has been shown for the year ended 31 December 1999 as the Company did not have any dilutive potential ordinary shares during the year.

12. Fixed assets

Group	Office				Total
	Land and buildings	Leasehold improvements	furniture and equipment	Motor vehicle	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost:					
At beginning of year	40,164	3,016	6,924	392	50,496
Additions	-	1,018	1,070	-	2,088
Acquisition of a subsidiary	-	13,819	54	-	13,873
Disposals	-	(183)	(119)	-	(302)
Exchange adjustments	-	68	(3)	(15)	50
At 31 December 2000	40,164	17,738	7,926	377	66,205

12. Fixed assets (continued)

Group	Land and	Leasehold	Office	Motor	Total
	buildings	improve- ments	furniture and equipment	vehicle	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accumulated depreciation:					
At beginning of year	4,043	2,926	6,679	65	13,713
Provided during the year	728	1,859	233	63	2,883
Acquisition of a subsidiary	-	392	2	-	394
Disposals	-	(142)	(117)	-	(259)
Exchange adjustments	-	(1)	(2)	(2)	(5)
At 31 December 2000	4,771	5,034	6,795	126	16,726
Net book value:					
At 31 December 2000	35,393	12,704	1,131	251	49,479
At 31 December 1999	36,121	90	245	327	36,783
Company					
				Office furniture and equipment	
				HK\$'000	
Cost:					
At beginning of year					8
Additions					7
At 31 December 2000					15
Accumulated depreciation:					
At beginning of year					1
Provided during the year					3
At 31 December 2000					4
Net book value:					
At 31 December 2000					11
Net book value:					
AT 31 December 1999					7

12. Fixed assets *(continued)*

At 31 December 2000, the net book value of the fixed assets of the Group held under finance leases included a motor vehicle amounting to HK\$251,000 (1999: HK\$327,000).

The Group's land and buildings are held under long term leases and are situated in Hong Kong.

All of the Group's land and buildings are pledged to a bank to secure banking facilities granted to the Group.

Further details of the Group's land and buildings are set out on page 53.

13. Investment properties

	Group	
	2000 HK\$'000	1999 HK\$'000
At beginning of year, at valuation	30,626	13,000
Acquisition of a subsidiary	123,706	16,893
Exchange adjustments	(75)	733
Surplus arising from revaluation	17,854	-
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At 31 December, at valuation	172,111	30,626

At 31 December 2000, the Group's investment properties were revalued on an open market, existing use basis by Vigers Hong Kong Limited and Vigers (JB) Sdn. Bhd., the independent registered professional surveyors' companies.

All of the Group's investment properties are pledged to secure banking facilities granted to the Group.

The Group's investment properties are situated in Hong Kong, Malaysia and the PRC, and are held under the following lease terms:

	Hong Kong HK\$'000	Elsewhere HK\$'000	Total HK\$'000
Freehold	-	139,191	139,191
Long term leases	5,800	-	5,800
Medium term leases	7,700	19,420	27,120
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Net book value at 31 December 2000	13,500	158,611	172,111

Further details of Group's investment properties are set out on page 53.

14. Interests in subsidiaries

	Company	
	2000	1999
	HK\$'000	HK\$'000
Unlisted investments, at cost	5,000	5,000
Due from subsidiaries	215,667	154,493
Loans to subsidiaries	107,787	87,165
Due to subsidiaries	(2,109)	(166)
	<u>326,345</u>	<u>246,492</u>
Less: Provisions for permanent diminutions in values	(138,106)	(124,546)
	<u>188,239</u>	<u>121,946</u>

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

The loans to subsidiaries are unsecured, repayable by 31 December 2001, and bear interest at prime rate (1999: The loans to subsidiaries were unsecured, repayable by 31 December 2000 and bore interest at prime rate plus 3%).

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Percentage of equity attributable to the Company		Nominal value of issued ordinary share capital	Principal activities
		2000	1999		
Bakeland Company Limited	Hong Kong	94.45	94.45	HK\$1,512,000	Property holding
Coin Fall Limited	Hong Kong	80	80	HK\$6,000,000	Securities brokerage
Colour Choice Investments Limited	British Virgin Islands	100#	100#	US\$1	Investment holding
Great Win International Limited	British Virgin Islands	50**	50**	US\$17,000	Investment holding

14. Interests in subsidiaries *(continued)*

Name	Place of incorporation/ registration and operations	Percentage of equity attributable to the Company		Nominal value of issued ordinary share capital	Principal activities
		2000	1999		
High Increase International Limited	British Virgin Islands	100#	100#	US\$1	Investment holding
Hua Chiao Development Limited	Hong Kong	100	100	HK\$2	Investment holding
Intwell Technology (S) Pte Limited*	Singapore	50**	50**	S\$100,000	IT training and software development
Jiang Sun Group Pte Limited*	Singapore	100	100	S\$2	Property holding
Kong Sun (China) Investment Limited	British Virgin Islands	100#	100#	US\$1	Investment holding
Kong Sun International Trading Limited	Hong Kong	100	100	HK\$2	Investment holding
Kong Sun Technology Limited	Hong Kong	100	100	HK\$2	Investment holding
Kong Sun Telecoms Limited	Hong Kong	100	100	HK\$2	Operations not yet commenced
Pacpo Hong Kong Company Limited	Hong Kong	100#	100#	HK\$2	Property holding
Pacpo Investments Limited	Hong Kong	100#	100#	US\$2	Investment holding and provision of loan finance

14. Interests in subsidiaries *(continued)*

Name	Place of incorporation/ registration and operations	Percentage of equity attributable to the Company		Nominal value of issued ordinary share capital	Principal activities
		2000	1999		
Peace Hill Securities Company Limited	Hong Kong	100#	100#	HK\$5,000,000	Investment holding
Kong Sun Resources Limited (formerly Simple Link Development Limited)	Hong Kong	100	100	HK\$2	Operations not yet commenced
Win Johnson Investment Limited	Hong Kong	100#	100#	HK\$2	Provision of loan finance
Pioneer Heritage Sdn. Bhd.***	Malaysia	55	–	MYR50,000,000	Property holding
Great Star Associates Limited***	British Virgin Islands	100#	–	US\$1	Operations not yet commenced
Simply Success International Limited***	British Virgin Islands	100	–	US\$1	Investment holding
Turbo Way Technology Limited***	Hong Kong	65	–	HK\$40,000	IT consultancy
Freedom Call Assets Limited***	British Virgin Islands	100	–	US\$1	Operations not yet commenced
Intwell Professional Training & Consultancy Pte Limited*/***	Singapore	50**	–	S\$2	IT training and consultancy
Intwell Technology (Hong Kong) Limited***	Hong Kong	50**	–	HK\$2	Commission agency

14. Interests in subsidiaries *(continued)*

Name	Place of incorporation/ registration and operations	Percentage of equity attributable to the Company		Nominal value of issued ordinary share capital	Principal activities
		2000	1999		
Count Wealth Investments Limited***	British Virgin Islands	100#	–	US\$1	Investment holding
Techseek Limited***	British Virgin Islands	100#	–	US\$1	Operations not yet commenced
Probuild Limited***	British Virgin Islands	100#	–	US\$1	Operations not yet commenced

* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

** These companies are accounted for as subsidiaries by virtue of the Company's control over the entities.

*** Acquired/incorporated during the year.

Directly held by the Company.

15. Intangible assets

Group

	Self-developed		Trading	Total
	Goodwill	software	rights	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost:				
At beginning of year	8,154	2,020	–	10,174
Additions	–	–	3,425	3,425
At 31 December 2000	8,154	2,020	3,425	13,599
Amortisation:				
At beginning of year	633	151	–	784
Provided during the year	1,631	405	285	2,321
At 31 December 2000	2,264	556	285	3,105
Net book value:				
At 31 December 2000	5,890	1,464	3,140	10,494
At 31 December 1999	7,521	1,869	–	9,390

15. Intangible assets *(continued)*

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 the trading rights granting eligibility to trade on the Stock Exchange and 805,000 ordinary shares of HK\$1.00 each in the Hong Kong Exchanges and Clearing Limited (the "HKEC Shares"), in exchange for its one share previously held in the Stock Exchange.

The prior carrying cost of the previously-held share in the Stock Exchange (note 16) has been apportioned to the trading rights and the HKEC Shares on the basis of their respective estimated fair values on 6 March 2000.

The trading rights have been classified as an intangible asset above. The HKEC Shares had been classified as short-term investments. Subsequent to their classification under these balance sheet categories, the trading rights and the HKEC Shares have been treated in accordance with the accounting policies for intangible assets and the short term investments, respectively. All of the HKEC Shares were disposed of during the year.

16. Long term investments

	Group	
	2000	1999
	HK\$'000	HK\$'000
Overseas unlisted equity investment, at cost	21,982	21,982
One share in The Stock Exchange of Hong Kong Limited, at cost	-	6,990
	21,982	28,972

17. Deposits and advances

The balance includes deposits paid for the purchase of a subsidiary which is engaged in property development and the advances made to a property developer on behalf of the subsidiary for the working capital of a development project. As the acquisition has not been completed at the balance sheet date, they are classified as non-current assets in the financial statements.

18. Short term investments

	Group	
	2000	1999
	HK\$'000	HK\$'000
Hong Kong listed equity investments, at market value	172	801

19. Trade receivables

The ageing analysis of trade receivables is as follows:

	Group			
	2000		1999	
	Balance	Percentage	Balance	Percentage
	HK\$'000		HK\$'000	
Current	363	52	1,064	80
1 – 3 months	263	37	249	19
3 – 6 months	26	4	7	1
6 – 12 months	49	7	–	–
Over 1 year	3,734	–	3,734	–
	4,435	100	5,054	100
Provision	(3,734)		(3,734)	
Total net of provision	701		1,320	

Invoices are normally payable within 30 days of issuance. The Group seeks to maintain strict control over its outstanding receivables, overdue balances are regularly reviewed by senior management.

20. Trade receivables in respect of securities transactions

	Group	
	2000	1999
	HK\$'000	HK\$'000
Trade receivables in respect of securities transactions	7,172	23,463
Provision	(1,265)	(1,139)
	5,907	22,324

Trade receivables in respect of securities transactions are due for settlement two days after the transaction date. Except for the balances which have been provided for, all the remaining balances are current.

21. Other receivables

	Group		Company	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other debtors, prepayments and deposits	2,789	4,470	329	67
Short term loans receivable	5,299	11,593	–	–
	8,088	16,063	329	67

22. Cash and cash equivalents

	Group		Company	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances	12,864	1,081	717	65
Time deposits	3,869	4,950	-	-
	16,733	6,031	717	65
Less: Pledged time deposits	(3,869)	(3,588)	-	-
	12,864	2,443	717	65

23. Trade payables in respect of securities transactions

The ageing analysis of trade payables is as follows:

	Group			
	2000		1999	
	Balance	Percentage	Balance	Percentage
	HK\$'000		HK\$'000	
1 – 3 months	3,690	100	18,513	100

24. Other payables

	Note	Group		Company	
		2000	1999	2000	1999
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accruals and deposits received		9,485	3,961	1,437	2,029
Due to a director	25	4,132	1,188	4,024	1,188
		13,617	5,149	5,461	3,217

25. Due to a director

The amount due to a director is unsecured, interest-free and has no fixed repayment terms.

26. Interest-bearing bank loans and other borrowings

	Notes	Group		Company	
		2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Bank overdrafts, secured		2,092	23,365	2,003	-
Current portion of finance lease payables	27	26	27	-	-
Current portion of bank loans and other loan	28	1,875	-	792	-
		3,993	23,392	2,795	-

27. Finance lease payables

The obligations under finance leases at the balance sheet date were as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
Amounts payable:		
Within one year	26	27
In the second year	26	27
In the third to fifth years, inclusive	77	80
After five years	40	78
Total minimum finance lease payments	169	212
Future finance charges	(30)	(38)
Total net finance lease payables	139	174
Portion classified as current liabilities – note 26	(26)	(27)
Long term portion	113	147

28. Interest-bearing bank loans and other borrowings

	Group		Company	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank loans, secured	18,000	–	18,000	–
Other loan, secured	26,004	–	–	–
	44,004	–	18,000	–
Bank loans repayable:				
Within one year or on demand	792	–	792	–
In the second year	879	–	879	–
In the third to fifth years, inclusive	3,261	–	3,261	–
After five years	13,068	–	13,068	–
	18,000	–	18,000	–
Other loan repayable:				
Within one year or on demand	1,083	–	–	–
In the Second year	13,002	–	–	–
In the third to fifth years, inclusive	11,919	–	–	–
	26,004	–	–	–
	44,004	–	18,000	–
Portion classified as current liabilities – note 26	(1,875)	–	(792)	–
Long term portion, secured	42,129	–	17,208	–

The Group's bank loans are secured by mortgages over the Group's land and buildings and investment properties situated in Hong Kong and the PRC, which had an aggregate carrying value at the balance sheet date of approximately HK\$68,313,000.

The other loan is secured by a mortgage over the Group's investment property situated in Malaysia which had an aggregate carrying value at the balance sheet date of approximately HK\$139,191,000. The other loan bears interest at 1% above the bankers' base lending rate in Malaysia and is repayable by 24 monthly instalments commencing from December 2001.

All of the Group's time deposits amounting to HK\$3,869,000 (1999: HK\$3,588,000) were pledged to secure banking facilities.

29. Deferred tax

	Group	
	2000 HK\$'000	1999 HK\$'000
Charge for the year and at 31 December – note 8	<u>706</u>	<u>–</u>

The principal components of the Group's provision for deferred tax and the amounts not provided for in these financial statements, are as follows:

	Group			
	Provided		Not provided	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Accelerated capital allowances	706	–	974	964
Tax losses available for future relief	–	–	13,409	12,009
	<u>706</u>	<u>–</u>	<u>14,383</u>	<u>12,973</u>

The benefit of any future tax relief, which arises from losses previously incurred by the Company and certain of its subsidiaries, has not been included as an asset in the balance sheet because the directors consider it prudent not to recognise the benefit until it is assured beyond reasonable doubt.

Except for the unprovided benefit of any future tax relief, the Company had no other significant unprovided deferred tax as at the balance sheet date.

The revaluation of the Group's investment properties does not constitute a timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified.

30. Share capital

	Company	
	2000 HK\$'000	1999 HK\$'000
Authorised:		
1,000,000,000 ordinary shares of HK\$0.10 each	<u>100,000</u>	<u>100,000</u>
Issued and fully paid:		
588,003,571 (1999: 384,700,000) ordinary shares of HK\$0.10 each	<u>58,800</u>	<u>38,470</u>

On 16 August 1999, the Company entered into a sale and purchase agreement with Kong Sun Enterprise Sdn. Bhd, a private company incorporated in Malaysia and beneficially owned as to 70% by Mr. Kong Look Sen, a director of the Company and his immediate family, to acquire a 55% interest in Pioneer Heritage Sdn. Bhd. at a consideration of HK\$56,925,000, which was satisfied by the allotment and issue of a total of 203,303,571 new ordinary shares of HK\$0.10 each by the Company at a price of HK\$0.28 per share. The acquisition was approved by the Company's shareholders at an Extraordinary General Meeting held on 21 February 2000 and was completed on 12 April 2000.

30. Share Capital *(continued)*

A summary of the transactions during the year with reference to the above movements of the Company's ordinary share capital is as follows:

	Shares issued	Carrying amount
	No. of shares	HK\$'000
At beginning of year	384,700,000	38,470
Issued & allotted for acquisition of a subsidiary	203,303,571	20,330
	<hr/>	<hr/>
At 31 December 2000	588,003,571	58,800
	<hr/>	<hr/>

Warrants

During the year, a bonus issue of warrants was made in the proportion of one warrant for every five shares held by members on the register of members on 18 April 2000, and 117,600,714 warrants were issued pursuant to the bonus issue. Each warrant entitles the holder thereof to subscribe for one ordinary share of HK\$0.10 each at a subscription price of HK\$0.60 per share (subject to adjustment), payable in cash and subject to adjustment, from 26 April 2000 to 25 April 2002.

During the year, no warrants were exercised. At the balance sheet date, the Company had 117,600,714 warrants outstanding. The exercise in full of outstanding warrants would, under the present capital structure of the Company, result in the issue of 117,600,714 additional ordinary shares of HK\$0.10 each for aggregate proceeds of HK\$70,560,428 before the related share issue expenses.

31. Reserves

	Share premium account HK\$'000	General reserves HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Group					
At 1 January 1999:					
As previously reported	10,805	18,000	-	54,066	82,871
Prior year adjustment - note 10	-	-	-	(2,104)	(2,104)
As restated	10,805	18,000	-	51,962	80,767
Exchange adjustments	-	-	739	-	739
Issue of shares	10,850	-	-	-	10,850
Share issue expenses	(684)	-	-	-	(684)
Net loss for the year	-	-	-	(4,491)	(4,491)
At 31 December 1999 and 1 January 2000					
	20,971	18,000	739	47,471	87,181
Exchange adjustments	-	-	(320)	-	(320)
Issue of shares	36,595	-	-	-	36,595
Share issue expenses	(30)	-	-	-	(30)
Net profit for the year	-	-	-	7,024	7,024
At 31 December 2000	57,536	18,000	419	54,495	130,450
Company					
At 1 January 1999					
			10,805	71,437	82,242
Issue of shares			10,850	-	10,850
Share issue expenses			(684)	-	(684)
Net loss for the year			-	(12,010)	(12,010)
At 31 December 1999 and 1 January 2000					
			20,971	59,427	80,398
Issue of shares			36,595	-	36,595
Share issue expenses			(30)	-	(30)
Net loss for the year			-	(11,931)	(11,931)
At 31 December 2000			57,536	47,496	105,032

32. Notes to consolidated cash flow statement

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

	2000 HK\$'000	1999 HK\$'000
Profit from operating activities	13,530	1,340
Interest income	(1,833)	(4,689)
Dividend income from listed investments	(54)	(70)
Depreciation	2,883	1,289
Amortisation of intangible assets	2,321	784
Loss on disposal of fixed assets	43	-
Surplus on revaluation of investment properties	(11,386)	-
Gains on disposal of short term investments	(10,282)	(3,113)
Provisions for impairment in fair values of short term investments	1	70
Provisions for doubtful debts	240	18
Decrease in loans receivable	-	877
Decrease/(increase) in trade receivables	17,035	(19,537)
Decrease/(increase) in other receivables and deposits	7,975	(2,554)
(Decrease)/increase in trade payables	(14,823)	16,312
Increase in other payables	825	3,204
	<hr/>	<hr/>
Net cash inflow/(outflow) from operating activities	<u>6,475</u>	<u>(6,069)</u>

32. Notes to consolidated cash flow statement *(continued)*

(b) Acquisition of subsidiaries

	2000 HK\$'000	1999 HK\$'000
Net assets acquired:		
Fixed assets	13,479	8
Investment properties	123,706	16,893
Intangible assets	-	2,016
Trade receivables	239	777
Other receivables	-	48
Cash and bank balances	-	701
Other payables	(7,643)	(395)
Due to related companies	-	(15,800)
Tax payable	-	(39)
Other long term loan	(25,875)	-
Minority interests	(46,981)	(1,783)
	<u>56,925</u>	<u>2,426</u>
Goodwill arising on acquisition	-	8,154
	<u>56,925</u>	<u>10,580</u>
Satisfied by:		
Cash paid	-	3,537
Issue of share capital	56,925	5,500
Settlement of loan receivable	-	1,543
	<u>56,925</u>	<u>10,580</u>

The analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2000 HK\$'000	1999 HK\$'000
Cash paid	-	(3,537)
Cash and bank balances acquired	-	701
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<u>-</u>	<u>(2,836)</u>

32. Notes to consolidated cash flow statement *(continued)*

(b) Acquisition of subsidiaries *(continued)*

The subsidiary acquired during the year contributed HK\$2,103,000 to the Group's net operating cash flows, paid HK\$1,852,000 in respect of the net returns on investments and servicing of finance, but had no significant impact in respect of the financing activities, the investing activities and tax.

In respect of cash flows for 1999, the subsidiaries acquired in the prior year made no significant contribution to the Group in respect of the cash flows for that year.

The subsidiaries acquired contributed HK\$8,965,000 to the Group's turnover and HK\$6,041,000 to the consolidated profit after tax and before minority interests for the year ended 31 December 2000.

The subsidiaries acquired in the prior year contributed HK\$2,996,000 to the Group's turnover but had no significant impact on the Group's consolidated profit after tax and before minority interests for the year ended 31 December 1999.

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

	Share capital (including share premium) HK\$'000	Finance lease payables HK\$'000	Interest bearing bank loans and other loans HK\$'000	Minority interests HK\$'000
Balance at 1 January 1999	42,875	-	-	3,042
Cash inflow/(outflow) from financing, net	11,066	(13)	-	-
Inception of a finance lease contract	-	187	-	-
Share of profit for the year	-	-	-	363
Acquisition of subsidiaries	5,500	-	-	1,783
Balance at 31 December 1999 and 1 January 2000	59,441	174	-	5,188
Cash inflow/(outflow) from financing, net	(30)	(35)	18,129	-
Share of profit for the year	-	-	-	1,024
Share of revaluation reserve	-	-	-	6,468
Acquisition of subsidiaries	56,925	-	25,875	46,981
Dividends	-	-	-	(2,400)
Balance at 31 December 2000	116,336	139	44,004	57,261

32. Notes to consolidated cash flow statement *(continued)*

(d) Major non-cash transactions

- (i) On 12 April 2000, the Company issued and allotted 203,303,571 new ordinary shares of HK\$0.10 each to Kong Sun Enterprise Sdn. Bhd., a private company incorporated in Malaysia and beneficially owned as to 70% by Mr. Kong Look Sen, a director of the Company and his immediate family, at a price of HK\$0.28 per share as the consideration for the acquisition of a subsidiary.
- (ii) As further detailed in note 15 to the financial statements, during the year the Company received the Stock Exchange Trading Right and 805,000 HKEC Shares in exchange for its one share previously held in the Stock Exchange.

33. Contingent liabilities

The Group did not have any contingent liabilities at the balance sheet date.

At the balance sheet date, the Company had contingent liabilities in respect of guarantees amounting to HK\$5,000,000 (1999: HK\$38,000,000) given to a bank for the general banking facilities granted to a subsidiary of the Company.

34. Commitments

(a) Operating lease commitments

At the balance sheet date, the Group had commitments under non-cancellable operating leases to make payments in the following year as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Land and buildings expiring:		
Within one year	10	279
In the second to fifth years, inclusive	1,401	165
	<u>1,411</u>	<u>444</u>

(b) Other commitments

At the balance sheet date, the Company had consultancy fees of HK\$1,750,000 (1999: Nil) payable under a non-cancellable consultancy agreement expiring within one year.

(c) Capital commitments

At 31 December 2000, the Group had contracted capital commitments amounting to HK\$5,924,000 (1999: HK\$59,968,000). Included in the contracted commitments is an amount of HK\$2,340,000 payable to Mr. So Hon Leung, Alvin, for the acquisition of the shares in Healthy Profit Enterprise Limited as set out in note 36 to the financial statements (1999: included in the contracted commitments was an amount of HK\$56,925,000 for the acquisition of the shares in Pioneer Heritage Sdn. Bhd.)

At the balance sheet date, the Company had no material contracted capital commitments (1999: Nil).

35. Related party transactions

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

	<i>Notes</i>	2000 HK\$'000	1999 HK\$'000
Acquisition of 55% interest in Pioneer Heritiage Sdn. Bhd. ("Pioneer") from Kong Sun Enterprise Sdn. Bhd. ("KSE")	<i>(i)</i>	56,925	–
Acquisition of all the issued shares in, and the benefits of a director's loan to, a subsidiary from Mr. and Mrs. Kong	<i>(ii)</i>	–	16,843
Rental subsidy receivable from Mr. and Mrs. Kong	<i>(ii)</i>	817	680
Management fees received from Equal Gain Sdn. Bhd. ("Equal Gain") in which KSE has a controlling equity interest	<i>(iii)</i>	398	228
Management fees received from KSE	<i>(iii)</i>	–	320
Management fees payable to Equal Gain	<i>(iv)</i>	499	–

Notes:

- (i) During the year, the Group acquired from KSE, a Malaysian company beneficially owned as to 70% by Mr. Kong Look Sen, a director of the Company and his immediate family, a 55% interest in Pioneer at a consideration of HK\$56,925,000, which was satisfied by the allotment and issue of a total of 203,303,571 new ordinary shares of HK\$0.10 each by the Company at a price of HK\$0.28 per share.
- (ii) In 1999, pursuant to sale and purchase agreement which was approved by the shareholders, the Group acquired all the issued shares in, and the benefits of a director's loan to, a subsidiary from Mr. and Mrs. Kong for a total consideration of HK\$16,843,000 (S\$3,763,297). In addition, Mr. and Mrs. Kong guaranteed the Group that the annual rental yield deriving from the property held by the subsidiary would not be less than 8% per annum for two years commencing from the date of the completion of the acquisition. As such, a rental subsidy of HK\$817,000 (1999: HK\$680,000) is receivable from Mr. and Mrs. Kong for the shortfall, as accrued at the balance sheet date, and is included in other receivables.
- (iii) Certain employees of the Group provided management services to KSE and Equal Gain, and management fees were received based on their costs plus a mark-up.
- (iv) Monthly management service fee of MYR20,000 is paid to Equal Gain for the marketing and management services provided to a subsidiary of the Group in Malaysia.

36. Post balance sheet events

As further explained in note 34 to the financial statements, on 8 December 2000, the Group entered into a conditional sale and purchase agreement with Mr. So Hon Leung, Alvin, an independent third party, to acquire all the issued shares in Healthy Profit Enterprise Limited, which holds a 50% equity interest in Genesis Strategic (Holdings) Limited, at a consideration of HK\$4,000,000. HK\$1,160,000 of the consideration was settled in cash upon the execution of the agreement by way of deposit and partial payment. Part of the consideration of HK\$2,340,000 will be settled by the issue of 6,500,000 new ordinary shares of the Company at HK\$0.36 each and the remaining consideration of HK\$500,000 will be settled in cash upon completion. The acquisition was completed on 9 January 2001.

37. Comparative amounts

Certain comparative amounts have been reclassified to conform with the current year's presentation where the bank interest income incidental to the Group's principal activities was included in other revenue in the profit and loss account.

38. Approval of the financial statements

The financial statements were approved by the board of directors on 12 April 2001.