



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2000

1. CORPORATE INFORMATION

The nature of operations of the Group and its principal activities have not changed during the year and consisted of securities, futures, bullion and share trading, underwriting, fund management, share margin financing and property development.

2. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice and accounting principles generally accepted in Hong Kong. They have been prepared under the historical cost convention, modified with respect to the measurement of investment securities and certain other assets.

(b) Basis of consolidation

The Group financial statements incorporate the financial statements of Mansion House Group Limited and all its subsidiaries made up to 31st December, 2000 and include the Group's share of the post-acquisition results of associates.

(c) Subsidiaries

A subsidiary is a company in which the Group has a long-term equity interest of more than 50% of the issued capital held. Investments in subsidiaries are stated at cost less provision. Provision is made when, in the opinion of the directors, there is a permanent diminution in value.

(d) Associates

An associate is a company, not being a subsidiary or a jointly controlled entity, in which the Group has a long term interest of not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results of associates is included in the consolidated profit and loss account. The Group's investments in associates are stated in the consolidated balance sheet at the Group's share of net assets/(liabilities) under the equity method of accounting less any provisions for diminution in values which are other than temporary.

The results of associates are included in the Company's profit and loss account to the extent of dividends received. The investments in associates in the Company's balance sheet are stated at cost unless, in the opinion of the directors, there have been permanent diminution in value, when they are written down to directors' valuation.

(e) Goodwill on consolidation

Goodwill arising on consolidation of subsidiaries and acquisition of associates is eliminated against reserves in the year in which it arises.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2000

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(f) Property held for development

Property held for development intended for sale is classified under current assets and stated at the lower of cost and net realisable value. Cost includes land cost, development expenditure, professional fees, financing and other expenses incurred incidental to the development. Net realisable value is determined by reference to professional valuations or directors' estimates based on prevailing market conditions.

(g) Real estate project costs

Real estate project costs are amortised according to the stage of completion of the property. Real estate project costs relating to property held for development is included in the consolidated balance sheet under "property held for development" net of amortisation to date and any write off for anticipated irrecoverable amounts.

(h) Depreciation on fixed assets

Depreciation is calculated to write off the cost of fixed assets over their estimated useful lives on a straight line basis at the following rates:

Leasehold properties	2% per annum
Motor vehicles	20% per annum
Computers	20% per annum
Office equipment and furnitures	20% – 33 $\frac{1}{3}$ % per annum
Leasehold improvements	20% – 33 $\frac{1}{3}$ % per annum

(i) Assets held under leases

(i) Finance leases

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 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 estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to produce a constant periodic rate of charge over the lease term.

(ii) Operating leases

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



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2000

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(j) Investments

(i) *Investment securities*

Investment securities comprised of listed and unlisted equity securities are stated at cost less any provision for diminution in value.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The amount of the reduction is recognised as an expense in the profit and loss account.

(ii) *Trading securities*

Trading securities comprised of listed equity securities are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading securities are recognised in the profit and loss account. Profits or losses on disposal of trading securities representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(k) Deferred taxation

Deferred taxation is calculated under the liability method in respect of the taxation effect arising from all timing differences which are expected with reasonable probability to crystallise in the foreseeable future.

(l) Translation of foreign currencies

(i) Foreign currency transactions during the year are translated into Hong Kong dollars at the applicable rates of exchange ruling on the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the applicable market rates of exchange ruling at the balance sheet date. Differences on foreign currency translation are dealt with in the profit and loss account.

(ii) For the purposes of consolidating the financial statements of foreign subsidiaries, their assets and liabilities and revenue items are translated at the closing exchange rates. The exchange differences arising on consolidation are dealt with through the exchange fluctuation reserve.

(m) Revenue recognition

(i) Brokerage and commission income recognised in the financial statements represents brokerage income accrued on all broking transactions traded on or before 31st December.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2000



2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(m) Revenue recognition (cont'd)

- (ii) Net realised profit/(loss) on securities trading is recognised upon execution of a sale/purchase trading order.
- (iii) Interest income is recognised on a time proportion basis.
- (iv) Dividend income is recognised when the shareholders' right to receive payment has been established.
- (v) Management, handling, advisory and consultancy fees are recognised at the time when the services are rendered.
- (vi) Gain on disposal of interest in associates is recognised when the sales contract becomes unconditional.
- (vii) When properties are developed for sale, revenue is recognised on the execution of a purchase and sales agreement or when the relevant occupation permit is issued by the relevant building authority, whichever is the later.

(n) Capitalisation of borrowing costs

Borrowing costs directly attributable to property held for development, i.e. asset that necessarily takes a substantial period of time to get ready for its intended sale, are capitalised as part of the cost of the asset. Capitalisation of such borrowing costs ceases when the asset is substantially ready for its intended sale. The capitalisation rate is based on the interest rate applicable to specific borrowings.

(o) Provident fund

The Group maintains a defined contribution scheme for its employees, the assets of which are held separately from those of the Group in an independently administered fund. Contributions for each year are based on a percentage of the eligible employees' salaries and are charged to the profit and loss account as they become payable.

(p) 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 entities.

(q) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired. For the purpose of the cash flow statement, cash equivalents would also include advances from banks repayable within three months from the date of the advance.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2000

3. VALUE OF TRANSACTIONS/TURNOVER AND REVENUE

- (a) Value of transactions represents the aggregate gross value of transactions in equities, bonds and foreign exchange.
- (b) Turnover for the year amounted to HK\$89,922,287 (1999: HK\$164,525,495) comprising mainly of net commissions and brokerage, underwriting commission, dividends and interest earned, management and handling fees received, advisory and consultancy fees income, net realised profit/(loss) on securities trading and gross proceeds from sales of unit trusts and properties.
- (c) The Group's turnover and revenue for the year arose from the following activities:

	2000 HK\$	1999 HK\$
Brokerage and commission income	32,441,663	24,241,962
Dividend income from investment securities	65,961	360,452
Interest income	12,584,484	16,183,118
Management and handling fees received	674,764	648,795
Consultancy fee income	–	2,414,030
Net realised profit on securities trading	27,970,723	1,073,647
Gross proceeds from sales of properties	16,184,692	119,603,491
Turnover	<u>89,922,287</u>	<u>164,525,495</u>
Provision for bad debts written back	17,760	13,380
Bad debts recovered	–	255,000
Profit on disposal of fixed assets	–	79,742
Exchange gain	554,794	13,430
Unrealised gain on trading securities	–	537,410
Sundry income	2,897,598	2,934,236
Other revenue	<u>3,470,152</u>	<u>3,833,198</u>
Total revenue for the year	<u>93,392,439</u>	<u>168,358,693</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2000

4. LOSS FROM OPERATIONS

Loss from operations is arrived at after charging the following:

	2000 HK\$	1999 HK\$
Staff costs	33,622,204	30,740,384
Operating lease rentals		
– land and buildings	1,188,791	3,625,442
Amortization and write off of estimated irrecoverable amount on real estate project costs	11,855,781	13,677,801
Depreciation		
– owned fixed assets	1,748,158	1,398,134
– leased fixed assets	477,473	234,004
Unrealised loss on trading securities	588,257	40,993
Consultancy fees	1,214,259	3,850,319
Auditors' remuneration	523,470	622,684
Provision for doubtful debts	–	8,719
Loss on disposal and write off of fixed assets	59,907	–

5. FINANCE COSTS

	2000 HK\$	1999 HK\$
Interest on bank loans, overdrafts and other loans repayable within five years	13,104,083	11,685,378
Interest on obligation under finance lease	165,058	40,604
	13,269,141	11,725,982

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2000

6. DIRECTORS' EMOLUMENTS

	2000 HK\$	1999 HK\$
Fees		
– executive	109,945	120,000
– non-executive	40,000	60,000
Basic salaries, housing allowances, other allowances and benefits in kind	7,406,768	6,400,187
Provident fund contributions	–	–
Discretionary bonuses and/or performance-related bonuses	–	–
Compensation for loss of office	–	–
Inducement for joining the Group	–	–
	7,556,713	6,580,187

None of the director (1999: one director) waived or agreed to waive his emolument in respect of the year ended 31st December, 2000.

The emoluments of the directors fell within the following bands:

HK\$	Number of directors	
	2000	1999
Nil – 1,000,000	5	7
1,000,001 – 1,500,000	1	1
1,500,001 – 2,000,000	1	1
2,000,001 – 2,500,000	1	1
	8	10

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2000

7. MANAGEMENT EMOLUMENTS

Of the Group's five highest paid individuals, four (1999: four) are directors whose remuneration has been disclosed in note 6. The aggregate of the emoluments in respect of the other one individual in 2000 is as follows:

	2000 HK\$	1999 HK\$
Basic salaries, housing allowances, other allowances and benefits in kind	627,750	1,466,810
Provident fund contribution	-	-
Discretionary bonuses and/or performance-related bonus	-	-
Compensation for loss of office	-	-
Inducement for joining the Group	-	-
	<u>627,750</u>	<u>1,466,810</u>

8. PROVIDENT FUND

The net contribution charged to the profit and loss account for 2000 was HK\$223,162 (1999: HK\$605,936). Any forfeited employer contributions in respect of employees who leave the scheme prior to such contributions vesting fully will be used by the Group to reduce contributions. The forfeited contributions utilised by the Group in 2000 amounted to HK\$469,518 (1999: HK\$148,034).

9. TAXATION

(a) Taxation in the consolidated profit and loss account represents:

	The Group	
	2000 HK\$	1999 HK\$
Hong Kong profits tax		
– current year	(1,966)	(418,857)
– (under)/overprovision in respect of prior years	(17,371)	5,137
– tax refund in respect of prior year	-	4,667
Tax in The People's Republic of China	-	(4,467,563)
Share of tax on results of associates	(357)	(23,500)
	<u>(19,694)</u>	<u>(4,900,116)</u>

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



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2000

9. TAXATION (CONT'D)

Tax in The People's Republic of China represents enterprise income tax which is provided on profits from operations deemed to arise in The People's Republic of China at 33% (1999: 33%).

- (b) The potential tax benefits of the Group of HK\$24,262,004 (1999: HK\$13,633,400) and of the Company of HK\$9,857,795 (1999: HK\$7,096,600) arising from the losses carried forward as at the balance sheet date have not been recognised in these financial statements.

Other than the above, there was no other significant amount of unprovided deferred taxation in respect of the Group and the Company at the balance sheet date.

- (c) Taxation recoverable represents the excess of provisional profits tax paid over the estimated tax liabilities.

10. LOSS ATTRIBUTABLE TO SHAREHOLDERS

Of the loss attributable to shareholders, HK\$119,275,347 (1999: HK\$40,884,474) has been dealt with in the financial statements of the Company.

11. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss after taxation and minority interest of HK\$102,129,386 (1999: loss after taxation and minority interest of HK\$39,233,924) and the weighted average number of 353,023,743 (1999: 302,106,056) shares in issue during the year.

(b) Diluted loss per share

Diluted loss per share for the year and prior year reflecting the exercise of all outstanding share options is not presented because the impact is anti-dilutive.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2000

12. FIXED ASSETS

(a) The Group

	Leasehold properties held in Hong Kong HK\$	Motor vehicles HK\$	Computers HK\$	Office equipment and furnitures HK\$	Leasehold improvements HK\$	Total HK\$
Cost						
At 31st December, 1999	7,491,505	2,742,839	3,054,985	7,243,203	3,122,836	23,655,368
Additions	-	-	4,917,201	498,805	114,810	5,530,816
Disposals	-	(3,641)	(1,872,288)	(2,874,931)	(1,550,720)	(6,301,580)
Exchange adjustments	-	39,893	-	11,219	-	51,112
At 31st December, 2000	<u>7,491,505</u>	<u>2,779,091</u>	<u>6,099,898</u>	<u>4,878,296</u>	<u>1,686,926</u>	<u>22,935,716</u>
Accumulated depreciation						
At 31st December, 1999	735,444	1,364,090	2,382,703	6,067,725	2,836,566	13,386,528
Charge for the year	149,831	397,649	1,058,717	410,629	208,805	2,225,631
Amount written back	-	(2,005)	(1,818,311)	(2,870,077)	(1,550,720)	(6,241,113)
Exchange adjustments	-	18,398	-	11,219	-	29,617
At 31st December, 2000	<u>885,275</u>	<u>1,778,132</u>	<u>1,623,109</u>	<u>3,619,496</u>	<u>1,494,651</u>	<u>9,400,663</u>
Net book value						
At 31st December, 2000	<u>6,606,230</u>	<u>1,000,959</u>	<u>4,476,789</u>	<u>1,258,800</u>	<u>192,275</u>	<u>13,535,053</u>
At 31st December, 1999	<u>6,756,061</u>	<u>1,378,749</u>	<u>672,282</u>	<u>1,175,478</u>	<u>286,270</u>	<u>10,268,840</u>

At 31st December, 2000, the aggregate net book value of the Group's fixed assets held under finance leases amounted to HK\$2,234,353 (1999: HK\$978,913).

The leasehold properties held in Hong Kong are deemed to be held under medium-term leases.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2000

12. FIXED ASSETS (CONT'D)

(b) The Company

	Motor vehicles HK\$	Computers HK\$	Office equipment and furnitures HK\$	Leasehold improvements HK\$	Total HK\$
Cost					
At 31st December, 1999	922,348	1,330,522	2,731,134	49,200	5,033,204
Additions	-	4,337,372	-	-	4,337,372
Written off	-	(614,328)	(526,064)	(6,600)	(1,146,992)
At 31st December, 2000	<u>922,348</u>	<u>5,053,566</u>	<u>2,205,070</u>	<u>42,600</u>	<u>8,223,584</u>
Accumulated depreciation					
At 31st December, 1999	917,353	926,462	2,658,089	26,794	4,528,698
Charge for the year	4,995	891,971	29,488	8,520	934,974
Amount written back	-	(563,231)	(526,064)	(6,600)	(1,095,895)
At 31st December, 2000	<u>922,348</u>	<u>1,255,202</u>	<u>2,161,513</u>	<u>28,714</u>	<u>4,367,777</u>
Net book value					
At 31st December, 2000	<u>-</u>	<u>3,798,364</u>	<u>43,557</u>	<u>13,886</u>	<u>3,855,807</u>
At 31st December, 1999	<u>4,995</u>	<u>404,060</u>	<u>73,045</u>	<u>22,406</u>	<u>504,506</u>

At 31st December, 2000, the aggregate net book value of the Company's fixed assets held under finance leases amounted to HK\$1,472,976 (1999: HK\$ Nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2000

13. INTEREST IN SUBSIDIARIES

	2000 HK\$	1999 HK\$
Unlisted shares, at cost	42,008,843	42,008,851
Amounts due from subsidiaries	161,685,705	182,597,510
Provision	(75,556,461)	(25,764,364)
Amounts due to subsidiaries	(39,831,036)	(47,078,957)
	88,307,051	151,763,040

Amounts due from/(to) subsidiaries are unsecured and have no fixed terms for repayment. Certain amounts bear interest at commercial lending rates.

Details of the subsidiaries are as follows:

Name of company	Place of incorporation and operation	Issued/registered and paid up capital	% of shareholding held at 31st December, 2000			Principal activities
			By the Group	By the Company	Class of shares held	
Mansion House Securities (F.E.) Limited	Hong Kong	30,000,000 shares of HK\$1 each	100	100	Ordinary	Securities broking and margin financing
Mansion House Investment Management Services Limited	Hong Kong	1,000,000 shares of HK\$1 each	100	100	Ordinary	Unit trust management
Mansion House Securities (Overseas) Limited	Bahamas	1,000 shares of B\$1 each	100	100	Ordinary	International investment projects
Mansion House (Nominees) Limited	Hong Kong	2 shares of HK\$1 each	100	100	Ordinary	Nominee services
*Mansion House Bullion Company	Hong Kong	Nil	100	100	N/A	Bullion dealer

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2000

13 INTEREST IN SUBSIDIARIES (CONT'D)

Details of the subsidiaries are as follows:

Name of company	Place of incorporation and operation	Issued/registered and paid up capital	% of shareholding held at 31st December, 2000		Class of shares held	Principal activities
			By the Group	By the Company		
Mansion House International Limited	Hong Kong	5,000,000 shares of HK\$1 each	100	100	Ordinary	Provision of investment consultancy and corporate advisory services
MHS Futures Limited	Hong Kong	6,000,000 shares of HK\$1 each	100	100	Ordinary	Commodities and financial futures broking
Mansion House Bullion Company Limited	Hong Kong	2 shares of HK\$1 each	100	100	Ordinary	Dormant
Mansion House Global Advisors Limited	Hong Kong	2 shares of HK\$1 each	100	100	Ordinary	Provision of investment consultancy services
Mansion House Real Estate Limited	Hong Kong	2 shares of HK\$1 each	100	100	Ordinary	Provision of property agency services and real estate investment
Mansion House Capital Limited	Hong Kong	1,000 shares of HK\$1 each	100	100	Ordinary	Securities trading and share margin financing
Mansion House (China) Limited	Hong Kong	2 shares of HK\$1 each	100	100	Ordinary	Dormant
Double Deal Limited	Hong Kong	2 shares of HK\$1 each	100	100	Ordinary	Property investment
Guangdong Wanhua Real Estate Development Company Limited	The People's Republic of China	RMB77,893,400	92	-	N/A	Property development

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2000

13. INTEREST IN SUBSIDIARIES (CONT'D)

Details of the subsidiaries are as follows:

Name of company	Place of incorporation and operation	Issued/registered and paid up capital	% of shareholding held at 31st December, 2000		Class of shares held	Principal activities
			By the Group	By the Company		
Mansion House (U.S.A.) LLC	United States of America	US\$30,000	100	-	N/A	Domant
Petaluma Management Limited	British Virgin Islands	1 share of US\$1 each	100	100	N/A	Securities investment
Winica Consultants Limited	Hong Kong	2 shares of HK\$1 each	100	100	Ordinary	Domant
E-House Limited	Hong Kong	2 shares of HK\$1 each	100	-	Ordinary	Domant

* Wholly-owned unincorporated business registered in Hong Kong.

The wholly owned subsidiary incorporated in the British Virgin Islands, Crighton Services Limited, was dissolved during the year. The profit on dissolution of the subsidiary of HK\$5,416,621 has been eliminated from the Group's accumulated deficit.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2000

14. INTEREST IN ASSOCIATES

	The Group		The Company	
	2000 HK\$	1999 HK\$	2000 HK\$	1999 HK\$
Unlisted shares, at cost less provision	-	-	1,109,397	1,109,397
Share of net assets/(liabilities) other than goodwill	1,514,197	(1,677,658)	-	-
Amounts due from associates	-	4,673,016	-	-
	1,514,197	2,995,358	1,109,397	1,109,397
Provision for amount due from an associate	-	(3,500,000)	-	-
	1,514,197	(504,642)	1,109,397	1,109,397
Amount due to an associate	(407,187)	(1,480,000)	(407,187)	(1,480,000)
	1,107,010	(1,984,642)	702,210	(370,603)

Amounts due from/(to) associates are unsecured and have no fixed terms for repayment. Certain amounts bear interest at commercial lending rates.

Particulars of the associates are as follows:

Name of company	Place of incorporation and operation	% of shareholding held at 31st December, 2000			Class of shares held	Principal activities
		Attributable to the Group	Owned directly	Owned by subsidiary		
Goctic Mansion House Investment Management Limited	Hong Kong	50	50	-	Ordinary	Provision of investment advisory services
State Street Mansion House Investment Management Services Limited	Hong Kong	50	50	-	Ordinary	Dormant

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2000

14. INTEREST IN ASSOCIATES (CONT'D)

The Group's share of the post-acquisition losses of the associates at the balance sheet date was HK\$485,803 (1999: HK\$3,682,558).

Three associates which were incorporated in Hong Kong, Shinlai Investment Limited, KK Yeung Capital Investment Limited and Commelin International Limited, were disposed of to an independent third party during the year for HK\$2,328,953. The gain on disposal of HK\$4,407,084, has been reflected in the consolidated profit and loss account.

15. INVESTMENT SECURITIES

	The Group		The Company	
	2000 HK\$	1999 HK\$	2000 HK\$	1999 HK\$
Unlisted equity investments, at cost	52,401,500	76,500	52,350,000	–
Provision for diminution in value	(51,429,227)	(74,737)	(51,429,227)	–
	<u>972,273</u>	<u>1,763</u>	<u>920,773</u>	<u>–</u>
Listed equity investments in Hong Kong, at cost	39,616	19,947,222	–	19,907,606
Provision for diminution in value	–	(13,858,684)	–	(13,858,684)
	<u>39,616</u>	<u>6,088,538</u>	<u>–</u>	<u>6,048,922</u>
	<u>1,011,889</u>	<u>6,090,301</u>	<u>920,773</u>	<u>6,048,922</u>
Market value of listed equity investments	<u>33,701</u>	<u>5,738,391</u>	<u>–</u>	<u>5,695,650</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2000

16. LOANS RECEIVABLE

	The Group		The Company	
	2000 HK\$	1999 HK\$	2000 HK\$	1999 HK\$
Loans receivable				
– Long-term portion	–	79,051,443	–	–
Less: Provision for doubtful loans	–	(40,000,000)	–	–
	–	39,051,443	–	–
– Current portion	85,408,775	14,372,990	–	–
Less: Provision for doubtful loans	(72,000,000)	–	–	–
	13,408,775	14,372,990	–	–
	13,408,775	53,424,433	–	–

The loans which were rescheduled in 1999 are partially secured and bear interest at prime rate plus 1% and are repayable by 14 equal installments payable semi-annually with the last installments payable semi-annually with the last installment due in May, 2006. The loans were in default during the year and the Group is in the process of demanding the loans. Therefore, the loans are reclassified as current assets at 31st December, 2000.

17. OTHER ASSETS

Other assets comprise statutory deposits and directors' valuation of trading rights in respect of securities and commodities dealings and are held for long term purposes. The trading rights of the futures and stock exchanges and the memberships of the gold and silver exchanges of the Group have been revalued by the directors by reference to market values at 31st December, 2000 at a total valuation HK\$10,903,773. The surplus on revaluations of HK\$8,850,000 has been credited to assets revaluation reserve.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2000

18. PROPERTY HELD FOR DEVELOPMENT

Particulars of the property held for development at the balance sheet date are as follows:

Location	Site area sq.m.	Use	Gross saleable floor area sq.m.	Percentage of interest attributable to the Group	Stage of completion	Estimated date of completion
Lot Nos. 15 and 19 Xin Kong Road South, Xi Jiao Village, Haizhu District, Guangzhou, Guangdong Province, The People's Republic of China.	68,445	Residential and commercial complex for remaining portion of Phase 1	508	92%	Completed	N/A
		Residential, commercial and carport complex for remaining portion of Phase 2	2,236	92%	Completed	N/A
		remaining portion of Phase 3	3,570	92%	Completed	N/A
		Phase 4	3,002	92%	Completed	N/A
		Phase 5	27,235	92%	Construction in progress	August 2001
		Phase 6	42,013	92%	Site clearance completed	N/A

No valuation of the property held for development as at 31st December, 2000 was carried out. However, an independent valuation of the property held for development and intended for sale, made on 20th April, 2001 by S.H. Ng & Co., Ltd., a chartered surveyor, on open market basis as at 31st March, 2001 amounts to HK\$115,000,000.

The property held for development is held under medium-term lease for the commercial complex and long-term lease for residential units.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2000

19. ACCOUNTS RECEIVABLE

	The Group		The Company	
	2000 HK\$	1999 HK\$	2000 HK\$	1999 HK\$
Brokers and dealers:				
– Hong Kong	11,861,757	63,835,484	–	–
– Foreign	246,304	2,221,460	–	–
Clients	89,494,727	101,069,294	–	–
Others	–	24,540,946	–	–
	<u>101,602,788</u>	<u>191,667,184</u>	<u>–</u>	<u>–</u>

20. TRADING SECURITIES

	The Group		The Company	
	2000 HK\$	1999 HK\$	2000 HK\$	1999 HK\$
Equity securities listed in				
– Hong Kong	763,492	1,234,610	632,192	1,073,900
– Overseas	513,442	882,750	513,442	882,750
	<u>1,276,934</u>	<u>2,117,360</u>	<u>1,145,634</u>	<u>1,956,650</u>
Market value	<u>1,276,934</u>	<u>2,117,360</u>	<u>1,145,634</u>	<u>1,956,650</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2000

21. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2000 HK\$	1999 HK\$	2000 HK\$	1999 HK\$
Deposits with financial institutions	82,337,579	103,628,921	–	–
Cash at banks and in hand	11,734,568	32,485,022	336,620	388,965
	<u>94,072,147</u>	<u>136,113,943</u>	<u>336,620</u>	<u>388,965</u>

Deposits with financial institutions at the balance sheet date included HK\$78,828,953 (1999: HK\$95,817,087) which were specifically designated as clients' segregated funds by its subsidiaries.

22. AMOUNT DUE TO A DIRECTOR

This represents interest free advances which are unsecured and have no fixed terms of repayment.

23. INTEREST-BEARING BORROWINGS/BANK LOANS AND OVERDRAFTS

	The Group		The Company	
	2000 HK\$	1999 HK\$	2000 HK\$	1999 HK\$
Bank loans	18,730,435	7,064,071	–	–
Bank overdrafts	54,404,721	48,237,807	5,761,708	6,378,709
	73,135,156	55,301,878	5,761,708	6,378,709
Portion due within one year classified as current liabilities	<u>(68,729,405)</u>	<u>(54,228,222)</u>	<u>(5,761,708)</u>	<u>(6,378,709)</u>
Long term portion	<u>4,405,751</u>	<u>1,073,656</u>	<u>–</u>	<u>–</u>
The long term portion of bank loans are repayable within a period of:				
More than one year but not exceeding two years	560,223	810,415	–	–
More than two years but not exceeding five years	1,847,470	263,241	–	–
More than five years	1,998,058	–	–	–
	<u>4,405,751</u>	<u>1,073,656</u>	<u>–</u>	<u>–</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2000

23. INTEREST-BEARING BORROWINGS/BANK LOANS AND OVERDRAFTS (CONT'D)

Clients' and part of the Group's securities with a total market value of approximately HK\$162,797,661 (1999: HK\$165,318,900) at the balance sheet date were pledged to banks to secure loans and overdraft facilities granted to the Group.

The Group's leasehold properties have been pledged in favour of a bank to secure a loan granted to the Group to the extent of HK\$5,000,000 and interest (1999: HK\$5,000,000 and interest).

Certain portion of the property held for development has been mortgaged to a bank in The People's Republic of China for loans granted to a subsidiary in the amount of HK\$12,605,042 (1999: HK\$Nil).

24. ACCOUNTS PAYABLE

	The Group		The Company	
	2000 HK\$	1999 HK\$	2000 HK\$	1999 HK\$
Brokers and dealers:				
– Hong Kong	8,705,549	61,901,381	–	–
– Foreign	1,234,709	252,083	–	–
Clients	84,854,921	146,081,648	–	–
Amounts due to directors for transactions in securities	735,705	1,141,884	–	–
Others	–	804,942	–	–
	<u>95,530,884</u>	<u>210,181,938</u>	<u>–</u>	<u>–</u>

25. LOANS PAYABLE

Loans payable which are unsecured, bear interest at rates ranging from 7.75% to 12% per annum and are repayable within one month from the balance sheet date. Approximately HK\$27 million of these loans were repaid subsequent to the balance date with the remaining HK\$52 million renewed to May 2001.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2000

26. OBLIGATION UNDER FINANCE LEASE

Commitments under finance lease at the balance sheet date were as follows:

	The Group		The Company	
	2000 HK\$	1999 HK\$	2000 HK\$	1999 HK\$
Amounts payable within one year	1,282,656	332,076	950,580	–
Amounts payable in the second year	138,361	332,076	–	–
Amounts payable in the third to fifth years inclusive	–	138,361	–	–
Total minimum lease payments	1,421,017	802,513	950,580	–
Future finance charges	(98,953)	(95,620)	(64,184)	–
Total obligation under finance lease	1,322,064	706,893	886,396	–
Current portion of obligation under finance lease	(1,187,223)	(271,225)	(886,396)	–
Long-term portion of obligation under finance lease	134,841	435,668	–	–

27. SHARE CAPITAL

(a) Authorised:

	2000 HK\$	1999 HK\$
450,000,000 ordinary shares of HK\$0.20 each	90,000,000	90,000,000

(b) Issued and fully paid:

	Number of ordinary shares of HK\$0.20 each	Nominal value HK\$
Balance as at 31st December, 1999	315,859,481	63,171,896
Shares allotted during the year (note (i) to (iii))	57,310,000	11,462,000
Balance as at 31st December, 2000	373,169,481	74,633,896

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2000

27. SHARE CAPITAL (CONT'D)

(b) Issued and fully paid (continued)

- (i) On 30th May, 2000, the Company placed 20,000,000 new ordinary shares at a price of HK\$0.5 per share to an existing shareholder. The placing shares represent approximately 5.4% of the existing issued share capital of the Company. The net proceeds of approximately HK\$10 million, which were received on 2nd June, 2000, were used as additional working capital.
- (ii) During the year 2,410,000 share options were exercised at subscription prices ranging from HK\$0.48 to HK\$0.49 for 2,410,000 ordinary shares of HK\$0.20 each.
- (iii) The Company has entered into a conditional subscription agreement on 29th February, 2000 and a supplemental agreement on 1st April, 2000 with New China Online Limited ("NCO") relating to the subscription ("Subscription") by the Company of 1,111 new shares of HK\$1.00 each in the share capital of NCO for a consideration of approximately HK\$52,350,000 which was paid by the Company by issuance and allotment of 34,900,000 new shares of HK\$0.20 each in the share capital of the Company.

(c) Employee share option scheme

Under the Group's employee share option scheme, the directors may grant options to any eligible employees of the Group including directors of the Company and its subsidiaries to subscribe for shares in the Company.

During the year, the movement in the number of options outstanding under the aforesaid share option scheme was as follows:

	Number of shares granted under the share option scheme
Balance as at 31st December, 1999	11,200,000
Granted during the year	–
Exercised and cancelled during the year	<u>2,550,000</u>
Balance as at 31st December, 2000	<u>8,650,000</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2000

27. SHARE CAPITAL (CONT'D)

(c) Employee share option scheme (cont'd)

At 31st December, 2000, details of the outstanding share options granted are as follows:

Option exercise period	Share options granted	Subscription price per share (subject to adjustment) HK\$	Granted to
18.06.1998 to 17.06.2002	100,000	1.22	A Director
18.06.1998 to 17.06.2002	100,000	1.22	An Employee
13.07.2001 to 12.07.2004	3,500,000	0.49	Directors
13.07.1999 to 12.07.2004	3,000,000	0.49	Directors
20.07.2001 to 19.07.2004	1,000,000	0.48	A Director
11.07.2001 to 10.07.2004	930,000	0.49	Employees
11.07.1999 to 10.07.2004	20,000	0.49	An Employee
	<u>8,650,000</u>		

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2000

28. RESERVES

	The Group		The Company	
	2000 HK\$	1999 HK\$	2000 HK\$	1999 HK\$
Share premium account:				
Balance brought forward	65,598,508	59,782,213	65,598,508	59,782,213
Premium on issue of shares	51,923,452	5,816,295	51,923,452	5,816,295
	<u>117,521,960</u>	<u>65,598,508</u>	<u>117,521,960</u>	<u>65,598,508</u>
Balance carried forward	117,521,960	65,598,508	117,521,960	65,598,508
Capital redemption reserve:				
Balance brought forward and carried forward	<u>1,035,200</u>	<u>1,035,200</u>	<u>1,035,200</u>	<u>1,035,200</u>
Accumulated deficit:				
Balance brought forward	(41,636,803)	(2,402,879)	(70,929,631)	(30,045,157)
Loss for the year	(102,129,386)	(39,233,924)	(119,275,347)	(40,884,474)
	<u>(143,766,189)</u>	<u>(41,636,803)</u>	<u>(190,204,978)</u>	<u>(70,929,631)</u>
Balance carried forward	(143,766,189)	(41,636,803)	(190,204,978)	(70,929,631)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2000

28. RESERVES (CONT'D)

	The Group		The Company	
	2000 HK\$	1999 HK\$	2000 HK\$	1999 HK\$
Assets revaluation reserve:				
Balance brought forward	13,999,997	13,999,997	-	-
Release upon disposal of shares on the Hong Kong Exchanges and Clearing Limited	(13,999,997)	-	-	-
Surplus on revaluation of trading rights in the Hong Kong Futures Exchange Limited and The Stock Exchange of Hong Kong Limited	8,850,000	-	-	-
Balance carried forward	<u>8,850,000</u>	<u>13,999,997</u>	-	-
Exchange fluctuation reserve:				
Balance brought forward	(2,623,224)	995,124	-	-
Exchange differences arising from translation of the financial statements of overseas subsidiaries	4,082,407	(3,618,348)	-	-
Balance carried forward	<u>1,459,183</u>	<u>(2,623,224)</u>	-	-
Total reserves	<u>(14,899,846)</u>	<u>36,373,678</u>	<u>(71,647,818)</u>	<u>(4,295,923)</u>
Losses accumulated in:				
Company and subsidiaries	(143,280,386)	(37,954,245)		
Associates	(485,803)	(3,682,558)		
	<u>(143,766,189)</u>	<u>(41,636,803)</u>		

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2000

29. CONTINGENT LIABILITIES

- (i) The Company has given guarantees to banks in respect of banking facilities granted by the banks to subsidiaries to the extent of HK\$20,000,000 (1999: HK\$155,000,000).
- (ii) A legal claim against a subsidiary for the return of securities valuing at HK\$68,420,793.27 was filed with the High Court on 9th April, 1998 by a client of the subsidiary. The claim was settled out of court for a sum of HK\$20,000,000 on 25th April, 2001 after the financial statements were approved by the board of directors. The estimated shortfall of HK\$7.6 million after taking into consideration of the estimated insurance claim receivable under the subsidiary's brokers' fidelity insurance scheme has already been made in these financial statements.

30. OPERATING LEASE COMMITMENTS

The annual commitments under non-cancellable operating leases at the balance sheet date in respect of land and buildings are as follows:

	The Group		The Company	
	2000 HK\$	1999 HK\$	2000 HK\$	1999 HK\$
Leases expiring:				
– within one year	319,239	2,414,396	492,810	448,394
– in the second to fifth years inclusive	3,245,180	268,758	–	–
	<u>3,564,419</u>	<u>2,683,154</u>	<u>492,810</u>	<u>448,394</u>

31. CAPITAL COMMITMENTS

	The Group		The Company	
	2000 HK\$	1999 HK\$	2000 HK\$	1999 HK\$
Capital expenditures contracted but not provided for in the financial statements	<u>45,790</u>	<u>33,100</u>	<u>–</u>	<u>–</u>



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2000

32. SHARE MARGIN CREDIT FACILITIES GRANTED TO A DIRECTOR DISCLOSED PURSUANT TO SECTION 161B OF THE COMPANIES ORDINANCE

Name of borrower:	Ms. Irene Wai Yin So
Position:	Director
Lender:	The Group
Terms of the loan:	
– interest rate	Prime rate plus 1%
– security	Listed securities
Balance of loan:	
At 31.12.1999	<u>HK\$Nil</u>
At 31.12.2000	<u>HK\$Nil</u>
Maximum balance outstanding during the year	<u>HK\$85,675</u>
Amount of interest due but not yet paid at 31.12.2000	<u>HK\$Nil</u>
Provision at 31.12.2000	<u>HK\$Nil</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2000

33. NOTES TO THE CASH FLOW STATEMENT

(a) Reconciliation of loss before taxation to net cash (outflow)/inflow from operating activities

	2000 HK\$	1999 HK\$
Loss before taxation	(102,109,692)	(33,648,475)
Gain on disposal of interest in associates	(4,407,084)	–
Loss on dissolution of an associate	–	1
Provision for impairment of investment securities	51,429,227	13,393,443
Amount due from an associate written off	468,000	193,750
Provision for shortfall of insurance claim relating to outstanding litigation	7,600,000	–
Provision for doubtful loans and bad debts	38,454,424	–
Share of losses of associates	55,061	1,986,248
Depreciation	2,225,631	1,632,138
Profit on disposal of investment securities	(246,502)	–
Investment securities written off	263	–
Loss/(profit) on disposal and write off of fixed assets	59,907	(79,742)
Club membership written off	300,000	–
Cost of exchange memberships in respect of securities and commodities dealings disposed of	1,342,008	–
Dividend income from investment securities	(65,961)	(360,452)
Interest expenses	13,269,141	11,725,982
Interest received	(602,797)	(614,085)
Exchange differences arising on consolidation	4,241,589	(4,046,231)
(Increase)/decrease in property held for development	(23,921,413)	40,214,367
Decrease/(increase) in accounts receivable	83,609,972	(122,356,167)
Decrease in sundry debtors and prepayments	2,232,727	3,279,634
Decrease in trading securities	840,426	528,114
(Decrease)/increase in accounts payable	(114,651,054)	38,363,246
(Decrease)/increase in loans payable	(20,816,962)	99,724,210
Decrease in sundry creditors and accruals	(3,859,275)	(2,313,009)
Increase in amount due to a director	990,000	–
Net cash (outflow)/inflow from operating activities	<u>(63,562,364)</u>	<u>47,622,972</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2000

33. NOTES TO THE CASH FLOW STATEMENT (CONT'D)

(b) Analysis of changes in financing during the year

	Share capital (including share premium) HK\$	Obligation under finance lease HK\$	Bank loans HK\$
Balance at 1st January, 2000	128,770,404	706,893	1,681,469
Cash inflow form financing	–	–	5,000,000
Inception of finance lease	–	1,732,913	–
Repayment during the year	–	(1,117,742)	(1,893,486)
Share allotment in settlement of acquisition of investment securities	52,350,000	–	–
Share allotment during the year	11,035,452	–	–
Balance at 31st December, 2000	<u>192,155,856</u>	<u>1,322,064</u>	<u>4,787,983</u>

(c) Major non-cash transactions

- (i) During the year, the Group entered into a finance lease arrangement in respect of computers with a total capital value at the inception of the lease of HK\$1,732,913.
- (ii) During the year, the Group entered into a subscription agreement to acquire investment securities for a consideration of HK\$52,350,000 which was settled by allotment of shares in the Company.

(d) Reconciliation of the balances of cash and cash equivalents in respect of short term bank loans and overdrafts

	2000 HK\$	1999 HK\$
Bank loans and overdrafts	68,729,405	54,228,222
Bank loans over three months to maturity	<u>(382,232)</u>	<u>(607,813)</u>
Bank loans and overdrafts within three months to maturity	<u>68,347,173</u>	<u>53,620,409</u>

(e) Summary of the effects of dissolution of a subsidiary

	2000 HK\$	1999 HK\$
Net assets disposed of:		
Amount due from ultimate holding company	<u>5,146,621</u>	–
Discharged by:		
Elimination against group accumulated deficit	<u>5,146,621</u>	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2000

34. RELATED PARTY TRANSACTIONS

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

- (i) The Group has granted on 20th October, 1998 the following related-party loans to enable the borrowers to reduce their margin accounts in prudent levels. These loans are approved by shareholders in the extraordinary general meeting held on 23rd July, 1999 as required by the Listing Rules of The Stock Exchange of Hong Kong Limited.

Borrower:	Dynamic Assets Limited and Pharmatech Management Limited	Noblesse Ventures Inc.
Relationship:	Companies controlled by Mr. So Shu Ching, Jason, brother of a director, Ms. Irene Wai Yin So	Company controlled by Ms. Sheila So Wai Kwan, sister of a director, Ms. Irene Wai Yin So
Lender:	A wholly owned subsidiary, Mansion House Capital Limited	A wholly owned subsidiary, Mansion House Capital Limited
Terms of the loan:		
– interest rate	Prime rate plus 1%	Prime rate plus 1%
– security	Partially secured by marketable securities and unlisted shares	Partially secured by marketable securities and unlisted shares
– repayment terms	By 14 equal installments payable semi-annually with the last installment due in May, 2006	By 14 equal installments payable semi-annually with the last installment due in May, 2006
Balance at 31.12.2000	<u>HK\$77,934,917</u>	<u>HK\$7,473,858</u>
Balance at 31.12.1999	<u>HK\$77,304,853</u>	<u>HK\$16,119,580</u>

A total provision of HK\$72,000,000 (1999: HK\$40,000,000) has been made against these related-party loans.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2000

34. RELATED PARTY TRANSACTIONS (CONT'D)

(ii) The Group has also provided margin financing to the following related parties:

Borrower:	Mr. So Shu Ching, Jason and companies controlled by him	Noblesse Ventures Inc.
Relationship:	Brother of a director, Ms. Irene Wai Yin So	Company controlled by Ms. Sheila So Wai Kwan, sister of a director, Ms. Irene Wai Yin So
Lender:	A wholly owned subsidiary, Mansion House Securities (F.E.) Limited	A wholly owned subsidiary, Mansion House Securities (F.E.) Limited
Terms of the loan:		
– interest rate	Prime rate plus 1%	Prime rate plus 1%
– security	Marketable securities	Marketable securities
Balance at 31.12.2000	<u>HK\$14,882,866</u>	<u>HK\$25,851,951</u>
Balance at 31.12.1999	<u>HK\$11,050,163</u>	<u>HK\$18,388,900</u>
Provision at 31.12.2000	<u>HK\$Nil</u>	<u>HK\$Nil</u>

(iii) The Group received commission income for securities transactions from related parties as follows:

	2000 HK\$	1999 HK\$
Directors		
– Mr. Evans Carrera Lowe	111,022	72,147
– Others	93,956	68,955
Related parties to the directors:		
Pharmatech Management Limited	–	2,191
Supreme Grass Limited	17,021	–
Noblesse Ventures Inc.	753	125,779
	<u>222,752</u>	<u>269,072</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2000

34. RELATED PARTY TRANSACTIONS (CONT'D)

(iv) The Group accrued interest income from related parties as follows:

	2000 HK\$	1999 HK\$
Related parties to the directors:		
Mr. So Shu Ching, Jason	–	336,389
Noblesse Ventures Inc.	1,401,377	3,352,966
Pharmatech Management Limited	1,357,468	3,033,734
Dynamic Assets Limited	2,275,150	5,027,658
	<u>5,033,995</u>	<u>11,750,747</u>

In the opinion of the directors, these transactions were conducted on normal commercial terms.

35. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date on 13th April, 2001, one of the Group's subsidiaries entered into an agreement with Seastar Properties Limited ("Seastar"), the project consultant for the real estate development in The People's Republic of China, which requires that in the event the Company fails to complete the real estate project or sells its interest in the real estate project, the Company has to pay liquidated damages of HK\$6,000,000 (1999: HK\$Nil) to Seastar.