

notes to financial statements

For the year ended 31 December 2000

1. General

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the Stock Exchange.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 15 to the financial statements.

2. Significant Accounting Policies

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment in securities and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective dates of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances between group companies are eliminated on consolidation.

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary and is written off to reserves immediately on acquisition. Negative goodwill, which represents the excess of the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary over the purchase consideration is credited to reserves.

Any premium or discount arising on the acquisition of an interest in an associate, representing the excess or shortfall respectively of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets of the associate at the date of acquisition, is dealt with in the same manner as that described above for goodwill.

On disposal of an investment in a subsidiary or an associate, the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal.

2. Significant Accounting Policies (continued)

Subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost, as reduced by any decline in the value of the subsidiary that is other than temporary. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable during the year.

Associates

An associate is an enterprise over which the Group is in a position to exercise significant influence, including participation in the financial and operating policy decisions.

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates.

When the Group transacts with its associates, unrealized profits and losses are eliminated to the extent of the Group's interest in relevant associates, except where unrealized losses provide evidence of an impairment of the asset transferred.

The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year. In the Company's balance sheet, investments in associates are stated at cost, as reduced by any decline in the value of the associate that is other than temporary.

Property and equipment

Property and equipment 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 the asset has been put into operation, such as repairs and maintenance and overhaul costs, is charged to the income statement 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 asset, the expenditure is capitalized as an additional cost of the asset.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

2. Significant Accounting Policies (continued)

Property and equipment (continued)

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the income statement.

Depreciation is provided to write off the cost of property and equipment over their estimated useful lives after taking into account their estimated residual value, using the straight-line method as follows:

Land and buildings	Over the lease terms
Leasehold improvements	The shorter of the lease terms and 5 years
Furniture, fixtures and equipment	3 to 5 years
Motor vehicles	3 years

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalized at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rental are charged to income statement on a straight-line basis over the term of the relevant lease.

Investments in securities

Investments in securities are recognized on a trade-date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

2. Significant Accounting Policies (continued)

Investments in securities (continued)

Other investments are measured at fair value, with unrealized gains and losses included in net profit or loss for the period.

Intangible assets

Intangible assets represent trading rights in the exchanges in Hong Kong. They are initially measured at cost and amortized on a straight line basis over 10 years.

Revenue recognition

Fee and commission income is recognized on a trade date basis when the services are rendered.

Realized profits and losses arising from trading of financial products are accounted for in the period in which the contracts/positions are closed as the difference between the net sales proceeds and the carrying amount of the financial products. Open contracts/positions are valued at market rate with unrealized profits and losses included in the income statement.

Information technology advisory income is recognized when the services are rendered.

Interest income is accrued on a time proportion basis, by reference to the principal outstanding and at the interest rate applicable.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognized in the financial statements. The tax effect of timing differences, computed using the liability method, are recognized as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallize in the foreseeable future.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at exchange rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

2. Significant Accounting Policies (continued)

Foreign currencies (continued)

On consolidation, the financial statements of subsidiaries which are denominated in currencies other than the Hong Kong dollars are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in reserves.

Cash equivalents

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 with three months from the date of the advances.

3. Turnover

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
Fee and commission income	326,483	209,804
Interest income	85,074	34,054
Gain on trading of securities, bullion, options, futures and foreign exchange contracts	60,148	1,463
Information technology advisory income	1,131	–
	<u>472,836</u>	<u>245,321</u>

3. Turnover (continued)

The Group's turnover and contribution to profit before taxation for the year ended 31 December 2000, analysed by principal activity and geographical market, were as follows:

	Turnover		Contribution to profit before taxation	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
By principal activity:				
Securities broking and trading	284,117	143,202	40,898	7,181
Commodities and options broking and trading	60,652	47,572	10,742	1,893
Broking and trading of leveraged foreign exchange	7,520	8,160	5,027	(777)
Bullion broking	1,200	1,637	950	(190)
Securities margin financing	42,526	15,306	34,278	20,029
Corporate finance advisory services	14,900	3,842	2,421	984
Online financial services	31,245	23,202	(115,344)	(15,868)
Information technology advisory services	1,310	–	(26,551)	–
Other revenue	–	–	195,224	118,608
Others	29,366	2,400	(28,977)	(42,190)
Contribution from associates	–	–	(57,994)	–
	<u>472,836</u>	<u>245,321</u>	<u>60,674</u>	<u>89,670</u>
By geographical market:				
Hong Kong	471,526	245,321	114,743	89,670
United States of America	1,310	–	(54,069)	–
	<u>472,836</u>	<u>245,321</u>	<u>60,674</u>	<u>89,670</u>

4. Other Revenue

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
Gain on deemed disposal of interests in COL and its subsidiaries	157,724	118,608
Gain on disposal of unlisted investment securities	37,500	—
	<u>195,224</u>	<u>118,608</u>

5. Salaries, Allowances and Commission

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
Directors' remuneration (<i>note 7</i>)	9,720	2,975
Salaries, allowances and commission	196,407	149,017
	<u>206,127</u>	<u>151,992</u>

6. Finance Costs

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
Interest on:		
Bank overdrafts and loans wholly repayable within five years	12,633	12,559
Finance leases	469	219
Convertible bonds	—	371
Convertible note	—	1,008
Loans from former ultimate holding company	—	3,934
	<u>13,102</u>	<u>18,091</u>

7. Directors' Remuneration

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
Fees:		
Executive directors	—	—
Independent non-executive directors	—	—
Other emoluments paid to executive directors:		
Salaries and other benefits	9,645	2,939
Contributions to retirement benefits schemes	75	36
Total remuneration	<u>9,720</u>	<u>2,975</u>

At the balance sheet date, outstanding share options to subscribe for 166,250,000 (1999: 120,000,000) ordinary shares of the Company were granted to certain directors of the Company. In determining the aggregate remuneration paid to the directors, the share options granted for the subscription of the ordinary shares of the Company have been excluded as, in the absence of a readily available market value for options on the ordinary shares of the Company, the directors are unable to arrive at an accurate assessment of the value of these options. Details of the options granted to the directors during the year are set out in the section "Directors' Interests in Securities" in the directors' report on page 53.

The remuneration of the directors fell within the following bands:

	THE GROUP	
	2000	1999
Nil – HK\$1,000,000	7	8
HK\$1,500,001 – HK\$2,000,000	2	—
HK\$2,000,001 – HK\$2,500,000	1	—
HK\$2,500,001 – HK\$3,000,000	1	—
	<u>11</u>	<u>8</u>

7. Directors' Remuneration (continued)

During the year, no emoluments were paid by the Group to the directors as a discretionary bonus or an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

8. Employees' Emoluments

The five highest paid employees included three (1999: one) director(s) of the Company, details of whose remuneration are included in the above disclosures. The details of the remuneration of the two (1999: four) remaining individuals were as follows:

	THE GROUP	
	2000	1999
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	4,095	6,335
Contributions to retirement benefit schemes	85	230
	<u>4,180</u>	<u>6,565</u>

At the balance sheet date, outstanding share options to subscribe for 11,000,000 (1999: 10,000,000) ordinary shares of the Company were granted to these employees during the year. In determining the aggregate remuneration paid to these individuals, the share options granted for the subscription of the ordinary shares of the Company have been excluded as, in the absence of a readily available market value for the options on the ordinary shares of the Company, the directors are unable to arrive at an accurate assessment of the value of these options.

8. Employees' Emoluments (continued)

The remuneration of the two (1999: four) remaining highest paid individuals fell within the following bands:

	THE GROUP	
	2000 Number of employees	1999 Number of employees
Nil – HK\$1,000,000	–	1
HK\$1,000,001 – HK\$1,500,000	–	2
HK\$2,000,001 – HK\$2,500,000	2	–
HK\$2,500,001 – HK\$3,000,000	–	1
	<u>2</u>	<u>4</u>

9. Profit before Taxation

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
Profit before taxation has been arrived at after charging/(crediting):		
Auditors' remuneration	1,300	1,100
Advertising and promotion expenses	98,492	17,989
Amortisation of intangible assets	1,823	–
Depreciation:		
Owned assets	17,665	9,216
Leased assets	1,108	415
Operating lease rentals in respect of land and buildings	17,175	15,556
Net foreign exchange losses	32	749
Impairment loss arising on investment securities	15,600	–
Write-off of deposit for the development of foreign exchange internet platform	1,950	–
Loss on disposals of property and equipment	250	3,809
Provision for bad and doubtful debts	30,900	–
Bad and doubtful debts recovered	–	(9,393)
	<u>–</u>	<u>(9,393)</u>

10. Taxation Credit

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
Hong Kong Profits Tax		
Tax for the year	–	(108)
Overprovision in prior years	148	–
Refund of 1997/98 final tax	–	1,819
	<u>148</u>	<u>1,711</u>
Deferred taxation (note 29)	1,280	–
	<u>1,428</u>	<u>1,711</u>
Taxation attributable to the Company and its subsidiaries	1,428	1,711
Share of taxation attributable to associates	–	–
	<u>1,428</u>	<u>1,711</u>

No tax is payable on the profit for the year arising in Hong Kong since there is no estimated assessable profits.

Hong Kong Profits Tax was calculated at 16% on the Group's estimated assessable profits arising in Hong Kong in last year.

11. Net Profit Attributable to Shareholders

Of the Group's net profit for the year of HK\$101,767,000 (1999: HK\$92,948,000), a loss of HK\$23,595,000 (1999: HK\$14,360,000) has been dealt with in the financial statements of the Company.

12. Distribution

It refers to the distribution of 498,123,217 shares in COL by the Company to shareholders during the year. Particulars of the distribution in specie of shares in COL were set out in the Company's circular dated 2 August 2000.

13. Earnings per Share

The calculation of basic earnings per share of HK\$0.10 each is based on the earnings attributable to shareholders for the year of HK\$101,767,000 (1999: HK\$92,948,000) and the weighted average number of 5,085,761,055 (1999: 2,818,785,065) ordinary shares in issue during the year.

The calculations of diluted earnings per share for the year ended 31 December 2000 together with the comparative figures for 1999 are calculated as follows:

	2000 HK\$'000	1999 HK\$'000
Earnings		
Net profit attributable to shareholders, used in basic earnings per share calculation	101,767	92,948
Interest related to convertible note during the year	–	1,008
Interest related to convertible bonds during the year	–	371
	<u>101,767</u>	<u>94,327</u>
Net profit attributable to shareholders, used in diluted earnings per share calculation	<u>101,767</u>	<u>94,327</u>
Number of shares		
Weighted average number of ordinary shares in issue during the year used in basic earnings per share calculation	5,085,761,055	2,818,785,065
Weighted average number of ordinary shares:		
Assumed issued on deemed conversion of all convertible note outstanding during the year	–	252,054,795
Assumed issued on deemed conversion of all convertible bonds outstanding during the year	–	46,342,466
Assumed issued at no consideration on deemed exercise of all shares options outstanding during the year	19,639,458	110,663,985
Assumed issued upon satisfaction of contingent conditions	–	24,623,162
	<u>19,639,458</u>	<u>24,623,162</u>
Weighted average number of ordinary shares used in diluted earnings per share calculation	<u>5,105,400,513</u>	<u>3,252,469,473</u>

13. Earnings per Share (continued)

The computation of diluted earnings per share does not assume the following:

- (i) the exercise of the Company's outstanding warrants because the exercise price of those warrants was higher than the average market price for shares for the year ended 31 December 2000;
- (ii) the exercise of the Company's conversion options granted to Fortune International Limited and CyberWorks Ventures Limited as the exercise prices of those conversion options were higher than the average market price for shares for the year ended 31 December 2000.

14. Property and Equipment

	Leasehold land and buildings HK\$'000	Leasehold improve- ments HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE GROUP					
COST					
At 1 January 2000	14,000	27,688	27,418	2,152	71,258
Acquired on acquisition of subsidiaries	–	7,934	49,539	–	57,473
Additions	–	17,370	30,161	2,281	49,812
Disposals	–	–	(371)	–	(371)
Eliminated on disposal of subsidiaries	–	(1,840)	(18,527)	–	(20,367)
At 31 December 2000	14,000	51,152	88,220	4,433	157,805
ACCUMULATED DEPRECIATION					
At 1 January 2000	986	5,449	6,382	192	13,009
Acquired on acquisition of subsidiaries	–	599	8,550	–	9,149
Provided for the year	280	6,353	11,282	858	18,773
Eliminated on disposals	–	–	(121)	–	(121)
Eliminated on disposal of subsidiaries	–	(194)	(2,424)	–	(2,618)
At 31 December 2000	1,266	12,207	23,669	1,050	38,192
NET BOOK VALUES					
At 31 December 2000	12,734	38,945	64,551	3,383	119,613
At 31 December 1999	13,014	22,239	21,036	1,960	58,249

14. Property and Equipment (continued)

The Group's leasehold land and buildings are situated in Hong Kong under medium-term lease.

The net book value of furniture, fixtures and equipment of HK\$64,551,000 includes an amount of HK\$1,706,000 (1999: HK\$2,187,000) in respect of assets held under finance leases.

The net book value of motor vehicles of HK\$3,383,000 includes an amount of HK\$3,086,000 (1999: HK\$1,961,000) in respect of assets held under finance leases.

	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Total HK\$'000
THE COMPANY			
COST			
At 1 January 2000 and 31 December 2000	19,682	11,130	30,812
ACCUMULATED DEPRECIATION			
At 1 January 2000	4,768	2,852	7,620
Provided for the year	2,619	4,490	7,109
At 31 December 2000	7,387	7,342	14,729
NET BOOK VALUES			
At 31 December 2000	12,295	3,788	16,083
At 31 December 1999	14,914	8,278	23,192

15. Investments in Subsidiaries

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
Unlisted shares, at cost	60,793	80,793
Impairment loss recognized	(60,793)	(80,793)
	<u>—</u>	<u>—</u>
	<u>—</u>	<u>—</u>

The following table lists subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Name	Country/ place of incorporation	Paid up issued share capital	Proportion of nominal value of issued share capital held by the Company %	Principal activities
COL	Bermuda	HK\$201,520,000 Ordinary	51.12	Investment holding
CASH on-line, Inc ("COL BVI")	British Virgin Islands	US\$1,007,600 Ordinary	51.12	Investment holding
CASH E-Trade Limited (formerly known as CASH on-line Limited)	Hong Kong	HK\$4,000,000 Ordinary	51.12	Provision of electronic trading platform for trading financial products, provision of electronic financial services and investment holding
Celestial Assets Management Limited	Hong Kong	HK\$4,000,000 Ordinary	100	Asset management and investment holding
Celestial Bullion Limited	Hong Kong	HK\$6,000,000 Ordinary	100	Bullion broking and trading
Celestial Capital Limited	Hong Kong	HK\$17,000,000 Ordinary	100	Provision of corporate finance services

15. Investments in Subsidiaries (continued)

Name	Country/ place of incorporation	Paid up issued share capital	Proportion of nominal value of issued share capital held by the Company %	Principal activities
Celestial Commodities Limited	Hong Kong	HK\$10,000,000 Ordinary	100	Futures and options broking and trading
Celestial Finance Limited	Hong Kong	HK\$20,000,002 Ordinary HK\$10,000,000 Non-voting deferred*	100	Provision of share margin financing
Celestial Forex Limited	Hong Kong	HK\$80,000,000 Ordinary	100	Leveraged foreign exchange broking and trading
Celestial (Inter national) Securities & Investment Limited	Hong Kong	HK\$2 Ordinary HK\$10,000,000 Non-voting deferred*	100	Investment holding and money lending
Celestial Investment Group Limited	British Virgin Islands	US\$10,000 Ordinary	100	Investment holding
Celestial (Nominees) Limited	Hong Kong	HK\$2 Ordinary	100	Provision of nominee services
Celestial Research Limited	Hong Kong	HK\$2 Ordinary	100	Provision of investment research services
Celestial Securities Limited	Hong Kong	HK\$50,000,000 Ordinary	100	Securities and equity options broking and trading
Celestial Strategic Investments Limited	British Virgin Islands	US\$1 Ordinary	100	Investment holding

15. Investments in Subsidiaries (continued)

Name	Country/ place of incorporation	Paid up issued share capital	Proportion of nominal value of issued share capital held by the Company %	Principal activities
e-finance.com.hk Limited	Hong Kong	HK\$26,000,000 Ordinary	51.12	Operation of a financial information website
iLux Corporation	United States of America	US\$11,151,118 Ordinary	82.11	Provision of information technology advisory services

* The non-voting deferred shares carry no rights to dividends, no rights to vote at general meetings and no rights to receive any surplus in a return of capital in a winding-up or otherwise.

Other than iLux Corporation, the principal place of operation of the subsidiaries is Hong Kong. The principal place of operation of iLux Corporation is United States of America.

The Company directly holds the interest in Celestial Investment Group Limited. All other subsidiaries are indirectly held by the Company.

16. Interests in Associates

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
Share of net assets	15,507	—
Loan to an associate	45,648	—
	<u>61,155</u>	<u>—</u>

16. Interests in Associates (contineud)

The loan to an associate is unsecured, non-interest bearing and has no fixed terms of repayment. In the opinion of directors, the loan to the associate will not be repaid in the next twelve months.

The following table lists the associates of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

Name	Country/ place of incorporation	Form of business structure	Proportion of nominal value of issued share capital held by the Company %	Principal activities
Transtech Services Group Limited	Hong Kong	Incorporated	46.25	Investment holding
Transtech Photonics Limited	Hong Kong	Incorporated	46.25	Producing photonics products and system
Edgemont Asia Limited	British Virgin Islands	Incorporated	25	Investment holding
Edge Solution (Inter national) Limited	Hong Kong	Incorporated	25	Software application services

Transtech Photonics Limited is the wholly-owned subsidiary of Transtech Services Group Limited. Edge Solution (International) Limited is the wholly-owned subsidiary of Edgemont Asia Limited. The principal place of operation of these companies is in Hong Kong.

17. Investments in Securities

	Investment securities		Other investments		Total	
	2000 HK'000	1999 HK'000	2000 HK'000	1999 HK'000	2000 HK'000	1999 HK'000
Equity securities:						
Non-current						
Unlisted, at cost	191,500	14,845	–	–	191,500	14,845
Impairment loss recognized	(15,600)	–	–	–	(15,600)	–
	<u>175,900</u>	<u>14,845</u>	<u>–</u>	<u>–</u>	<u>175,900</u>	<u>14,845</u>
Current						
Listed in Hong Kong, at market value	–	–	30,245	816	30,245	816
	<u>175,900</u>	<u>14,845</u>	<u>30,245</u>	<u>816</u>	<u>206,145</u>	<u>15,661</u>

Unlisted investment securities as at 31 December 1999 represented the Group's investment costs in shares in the Stock Exchange and the Hong Kong Futures Exchange Limited. In previous year, such amounts were classified as other non-current assets.

18. Intangible Assets

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
Trading rights in exchanges in Hong Kong, at cost	18,235	–
Amortised during the year	<u>(1,823)</u>	<u>–</u>
	<u>16,412</u>	<u>–</u>

19. Other Assets

	THE GROUP		THE COMPANY	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Statutory and other deposits	7,529	11,994	–	4,569
Club memberships	4,928	1,330	–	–
Deposits for long term investments/projects	39,000	23,250	39,000	13,000
	<u>51,457</u>	<u>36,574</u>	<u>39,000</u>	<u>17,569</u>

20. Loans Receivable

The maturity of the loans receivable arising from the ordinary course of business of the Group is as follows:

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
Matured between six months to twelve months	72,000	15,948
Matured over one year	<u>114,252</u>	<u>–</u>
	<u>186,252</u>	<u>15,948</u>

21. Accounts Receivable

	THE GROUP	
	2000	1999
	HK\$'000	HK\$'000
Accounts receivable arising from the ordinary course of business of dealing in securities and equity options:		
Clearing houses, brokers and dealers	5,036	3,335
Cash clients	11,789	246,638
Margin clients	257,637	274,227
Accounts receivable arising from the ordinary course of business of dealing in futures and options contracts:		
Clearing houses, brokers and dealers	44,168	25,712
	<u>318,630</u>	<u>549,912</u>

The settlement terms of accounts receivable arising from the ordinary course of business of dealing in securities and equity options are two days after trade date, and accounts receivable arising from the ordinary course of business of dealing in futures and options contracts are one day after trade date.

Except for the loans to share margin clients as mentioned below, all the above balances aged within 30 days.

Loans to share margin clients are secured by clients' pledged securities, repayable on demand and bear interest at commercial rates. Included in accounts receivable from margin clients arising from the ordinary course of business of dealing in securities is an amount of approximately HK\$18,695,000 (1999: nil) due from Suffolk Resources Limited, in which Kwan Pak Hoo Bankee has a beneficial interest and is a director. The amount is secured by pledged securities and repayable on demand, and bears interest at normal commercial rates which are the same as the rates offered to other margin clients. The maximum amount outstanding during the year is HK\$36,143,000. No aged analysis is disclosed as in the opinion of directors, the aged analysis does not give additional value in view of the nature of business of share margin financing.

22. Pledged Bank Deposits

The Group's bank deposits of HK\$27,260,000 (1999: nil) were pledged to a bank to secure the general banking facilities granted to an associate. In addition, the Group's bank deposit of HK\$877,000 (1999: nil) was pledged to secure a bank guarantee of HK\$877,000 (1999: nil) given to one of the Group's landlords.

22. Pledged Bank Deposits (continued)

In 1999, the Group's bank deposits of HK\$30,000,000 were pledged to banks to secure general banking facilities granted to the Group.

23. Bank Balances and Cash

	THE GROUP		THE COMPANY	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank balances:				
General accounts	597,887	785,825	2,598	5,115
Trust and segregated accounts	294,456	249,401	—	—
Cash on hand	35	12	—	—
	<u>892,378</u>	<u>1,035,238</u>	<u>2,598</u>	<u>5,115</u>

24. Accounts Payable

	THE GROUP	
	2000	1999
	HK\$'000	HK\$'000
Accounts payable arising from the ordinary course of business of dealing in securities and equity options:		
Clearing houses, brokers and dealers	8,331	74
Cash clients	233,357	319,435
Margin clients	32,386	34,024
Accounts payable arising from the ordinary course of business of dealing in futures and options contracts	<u>100,642</u>	<u>48,015</u>
	<u>374,716</u>	<u>401,548</u>

The settlement terms of accounts payable arising from the ordinary course of business of dealing in securities are two days after trade date. The age of these balances is within 30 days.

24. Accounts Payable (continued)

Accounts payable to clients arising from the ordinary course of business of dealing in futures and options contracts are margin deposits received from clients for their trading of futures and options contracts. The excesses of the outstanding amounts over the required margin deposits stipulated are repayable to clients on demand. No aged analysis is disclosed as in the opinion of directors, the aged analysis does not give additional value in view of the nature of business of futures and options contracts dealing.

Amounts due to share margin clients are repayable on demand. No aged analysis is disclosed as in the opinion of directors, the aged analysis does not give additional value in view of the nature of business of share margin financing.

25. Obligations under Finance Leases

The maturity of obligations under finance leases is as follows:

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
Within one year	2,146	1,467
More than one year but not exceeding two years	1,553	2,146
More than two years but not exceeding five years	74	424
	<u>3,773</u>	<u>4,037</u>
Less: Amount due within one year shown under current liabilities	<u>(2,146)</u>	<u>(1,467)</u>
	<u>1,627</u>	<u>2,570</u>

Included in the amount of HK\$3,773,000, an amount of HK\$1,478,000 (1999: HK\$3,021,000) is secured by a guarantee given by the Company.

26. Bank Borrowings

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
Bank overdrafts	36,362	72,236
Bank loans	85,000	35,000
	<u>121,362</u>	<u>107,236</u>
Unsecured	5,771	—
Secured	115,591	107,236
	<u>121,362</u>	<u>107,236</u>

The bank borrowings are repayable on demand or within one year.

At 31 December 2000, the Group's bank borrowings of HK\$115,591,000 (1999: HK\$107,236,000) were secured by:

- (a) corporate guarantees from the Company; and
- (b) marketable securities of the Group's clients (with clients' consent).

In 1999, the Group's borrowings were also secured by pledged bank deposits of HK\$30,000,000. The facilities secured by these pledged bank deposits were not utilized as at the balance sheet date.

27. Share Capital

	THE COMPANY	
	Number of ordinary shares of HK\$0.10 each (in thousands)	Amount HK\$'000
Authorized:		
At 1 January 1999	5,000,000	500,000
Increase in 1999	<u>3,000,000</u>	<u>300,000</u>
At 31 December 1999 and 31 December 2000	<u>8,000,000</u>	<u>800,000</u>

27. Share Capital (continued)

THE COMPANY			
	Notes	Number of ordinary shares of HK\$0.10 each (in thousands)	Amount HK\$'000
Issued and fully paid:			
At 1 January 1999		2,140,167	214,017
Conversion of convertible note	(a)	1,000,000	100,000
Conversion of convertible bonds	(b)	425,000	42,500
Placement of shares		1,218,000	121,800
Exercise of share options		177,500	17,750
At 31 December 1999 and 1 January 2000		4,960,667	496,067
Issued as consideration to acquire 8.7%			
of the issued share capital of COL	(c)	463,147	46,315
Placement of shares	(d)	479,000	47,900
Exercise of warrants	(e)	486	48
Exercise of share options	(f)	20,598	2,060
At 31 December 2000		5,923,898	592,390

Notes:

(a) Conversion of convertible note

On 9 June 1999, a convertible note of HK\$100,000,000, bearing interest at 4% per annum, was issued to Cash Guardian. Under the subscription agreement, the principal amount of the convertible note could be converted into shares at an initial conversion price of HK\$0.10 per share at any time from 9 September 1999 to 9 June 2001. The convertible note was converted into 1,000,000,000 shares on 9 September 1999.

(b) Conversion of convertible bonds

On 26 July 1999, eight convertible bonds of aggregating HK\$85,000,000, bearing interest at 4% per annum, were issued to eight independent institutional investors. The principal amount of the convertible bonds could be converted at an initial conversion price of HK\$0.20 per share at any time after the expiry of one month from the date of issuance of the convertible bonds up to 31 December 1999. HK\$51,000,000 and HK\$34,000,000 of the convertible bonds were converted into a total of 425,000,000 shares on 26 August 1999 and 17 September 1999 respectively.

27. Share Capital (continued)

(c) Acquisition of 8.7% of the issued share capital of COL

Pursuant to an agreement dated 4 September 2000, the Company purchased 175,000,000 ordinary shares of HK\$0.10 each of COL from Cash Guardian at a consideration of approximately HK\$277,888,000. The consideration was satisfied by the issue and allotment of 463,146,750 ordinary shares of HK\$0.10 each of the Company to Cash Guardian at HK\$0.60 per share.

(d) Placement of shares

Pursuant to a private placing agreement dated 8 December 2000, Cash Guardian sold a total of 479,000,000 ordinary shares of HK\$0.10 each of the Company to certain independent third parties at HK\$0.30 per share and the Company in turn allotted and issued 479,000,000 ordinary shares of HK\$0.10 each of the Company to Cash Guardian at HK\$0.30 per share.

The proceeds of the placing, before expenses, totalled approximately HK\$143,700,000. The proceeds were used to provide additional working capital for the Group. These shares ranked *pari passu* with all other shares in issue in all respect.

(e) Warrants

On 14 July 2000, the Company issued 497,591,725 bonus issue of warrants (“Bonus Warrants”) to the shareholders of the Company, whose addresses were in Hong Kong as shown in the register of members of the Company at the close of business on 7 July 2000 at a distribution ratio of one warrant for every ten shares of HK\$0.10 each in the Company. Each unit of the Bonus Warrants will give the holder the right to subscribe in cash for one ordinary share of HK\$0.10 of the Company at a subscription price of HK\$0.65 per share at any time from 20 July 2000 to and including 31 July 2002.

On 14 July 2000, the Company issued 496,440,000 warrants (“Placing Warrants”) to independent investors at a price of HK\$0.12 per Placing Warrant. Each unit of the Placing Warrants will give the holder the right to subscribe in cash for one ordinary share of HK\$0.10 in the Company at a subscription price of HK\$0.60 per share at any time from 20 July 2000 to and including 31 January 2002.

During the year, the registered holders of 486,060 Bonus Warrants exercised their rights to subscribe for 486,060 ordinary shares in the Company. At the balance sheet date, the Company had 497,105,665 Bonus Warrants and 496,440,000 Placing Warrants outstanding. Exercise in full of such warrants (if the subscription prices are not to be adjusted) would result in the issue of 993,545,665 additional shares of HK\$0.10 each.

27. Share Capital (continued)

(f) Share options

Pursuant to a share option scheme of the Company approved by shareholders and established on 29 March 1994, the board of Directors of the Company may grant options to eligible executive directors and employees of the Company and its subsidiaries to subscribe for shares in the Company for a consideration of HK\$1 for each lot of share options granted. The subscription price is required to be the higher of the nominal value of the shares or 80% of the average of closing share prices for the five trading days immediately preceding the date of grant of the option. The maximum nominal amount of shares in respect of which options may be granted under the share option scheme is limited to 10% of the share capital of the Company in issue from time to time, and the maximum number of shares in respect of which options may be granted to any one executive director or employee is limited to 25% of the maximum number of shares in respect of which options may be granted under the share option scheme.

Details of movements in the share options during the year and share options remaining outstanding as at 31 December 2000 are as follows:

Exercise price per share	Exercise period	Date of share options granted	Number of shares options (in thousands)				At 31 December 2000
			At 1 January 2000	Granted during the year	Exercised during the year	Cancelled during the year	
HK\$0.103	11/6/1999 – 10/6/2001	4/12/1998	10,000	–	(10,000)	–	–
HK\$0.23	13/5/2000 – 12/11/2001	13/5/1999	6,500	–	(4,000)	–	2,500
HK\$0.23	13/5/2000 – 12/5/2002	13/5/1999	1,250	–	(1,250)	–	–
HK\$0.23	13/11/2000 – 12/5/2002	13/5/1999	1,250	–	(500)	–	750
HK\$0.59	8/4/2000 – 7/4/2002	4/10/1999	132,415	–	(4,848)	(1,893)	125,674
HK\$0.59	8/10/2000 – 7/4/2002	4/10/1999	12,415	–	–	(1,893)	10,522
HK\$0.59	8/4/2001 – 7/4/2002	4/10/1999	12,415	–	–	(1,893)	10,522
HK\$0.59	8/10/2001 – 7/4/2002	4/10/1999	12,415	–	–	(1,893)	10,522
HK\$0.61	1/11/2000 – 31/10/2002	15/11/1999	5,000	–	–	–	5,000
HK\$0.61	1/11/2001 – 31/10/2002	15/11/1999	5,000	–	–	–	5,000
HK\$0.80	10/1/2001 – 9/1/2003	10/1/2000	–	10,000	–	–	10,000
HK\$0.80	11/7/2000 – 10/7/2002	10/1/2000	–	125	–	–	125
HK\$0.80	11/1/2001 – 10/7/2002	10/1/2000	–	125	–	–	125
HK\$0.80	11/7/2001 – 10/7/2002	10/1/2000	–	125	–	–	125
HK\$0.80	11/1/2002 – 10/7/2002	10/1/2000	–	125	–	–	125
HK\$0.47	1/3/2001 – 28/2/2003	12/4/2000	–	2,000	–	(2,000)	–
HK\$0.47	1/3/2002 – 28/2/2003	12/4/2000	–	2,000	–	(2,000)	–
HK\$0.35	1/12/2000 – 30/11/2002	1/6/2000	–	27,500	–	–	27,500
HK\$0.35	1/6/2001 – 30/11/2002	1/6/2000	–	27,500	–	–	27,500
HK\$0.49	1/2/2001 – 31/1/2003	28/7/2000	–	2,750	–	–	2,750
HK\$0.49	1/8/2001 – 31/1/2003	28/7/2000	–	2,750	–	–	2,750
HK\$0.49	1/2/2002 – 31/1/2003	28/7/2000	–	2,750	–	–	2,750
HK\$0.49	1/8/2002 – 31/1/2003	28/7/2000	–	2,750	–	–	2,750
HK\$0.27	16/5/2001 – 15/5/2003	6/11/2000	–	26,625	–	–	26,625
HK\$0.27	16/11/2001 – 15/5/2003	6/11/2000	–	26,625	–	–	26,625
HK\$0.27	16/5/2002 – 15/5/2003	6/11/2000	–	1,625	–	–	1,625
HK\$0.27	16/11/2002 – 15/5/2003	6/11/2000	–	1,625	–	–	1,625
Total			198,660	137,000	(20,598)	(11,572)	303,490

27. Share Capital (continued)

(f) Share options (continued)

During the year, an aggregate of 20,598,000 share options were exercised to subscribe for 10,000,000, 5,750,000 and 4,848,000 ordinary shares of the Company at subscription prices of HK\$0.103, HK\$0.23 and HK\$0.59 per share respectively. The total cash proceeds received by the Company, before expenses, was approximately HK\$5,213,000.

The exercise in full of the outstanding 303,490,000 share options at 31 December 2000 would, under the present capital structure of the Company, result in the issue of 303,490,000 additional shares for a total cash consideration, before expenses, of approximately HK\$147,914,000.

(g) Conversion options

- (1) On 6 September 1999, a conditional agreement ("Fortune Agreement") was entered into between Fortune International Limited ("Fortune"), a company incorporated in Taiwan, COL BVI and the Company in connection with Fortune's subscription of shares in COL BVI.

Pursuant to the Fortune Agreement, Fortune subscribed for 43,000 shares in COL BVI for a cash consideration of US\$4,500,000 (approximately equivalent to HK\$35,000,000). The shares in COL BVI were issued to Fortune on 15 October 1999. In addition, Fortune was granted an option ("Fortune Option") to subscribe for an additional 43,000 shares in COL BVI at an option price of US\$4,500,000 (approximately equivalent to HK\$35,000,000). The Fortune Option would lapse if it was not exercised within three months from completion of the subscription. If the Fortune Option was exercised, Fortune would be entitled to a conversion option ("Fortune Conversion Option") to convert all or part of the aggregate US\$9,000,000 subscription money into not more than 7% of the then total issued share capital of the Company as at the date of the conversion notice given to the Company. The Fortune Conversion Option would lapse if it was not exercised within three months from the date of exercise of the Fortune Option.

The Fortune Option expired without being exercised by 15 January 2000. However, on 18 January 2000, the Company granted Fortune an extension of the exercise period of the Fortune Option for another six months from 15 January 2000 to 14 July 2000. The grant of and the right to the Fortune Conversion Option and the conversion period were also extended accordingly.

On 15 March 2000, Fortune confirmed in writing to waive its right to the Fortune Conversion Option.

- (2) On 14 October 1999, a conditional agreement ("CyberWorks Agreement") was entered into between CyberWorks Ventures Limited ("CyberWorks"), a company incorporated in Bermuda, COL BVI and the Company in connection with CyberWorks' subscription of shares in COL BVI.

Pursuant to the CyberWorks Agreement, CyberWorks subscribed for 44,000 shares of COL BVI for a cash consideration of HK\$39,000,000. The shares in COL BVI were issued to CyberWorks on 22 November 1999. In addition, CyberWorks was granted an option to subscribe for additional 44,000 shares in COL BVI at an option price of HK\$39,000,000 ("Cyberworks Option") at any time prior to the listing of shares of COL BVI, or COL BVI's immediate holding company, or a wholly-owned subsidiary of COL BVI, on any stock exchanges or public quotation system approved by the board of directors of the relevant issuers, or the expiry of two years from the completion of subscription, whichever is the earlier. If the listing of shares in COL BVI, or COL BVI's immediate holding company, or a wholly-owned subsidiary of COL BVI was not procured within two years from the completion of subscription, CyberWorks was entitled to a conversion option ("CyberWorks Conversion Option") to convert all or part of the subscription price of HK\$39,000,000 into shares in the Company at a price not less than HK\$0.60 per share. The CyberWorks Conversion Option would lapse if it was not exercised within one month from the second anniversary of the completion of subscription.

27. Share Capital (continued)

(g) Conversion options (continued)

On 24 August 2000, CyberWorks, COL, COL BVI and the Company entered into an agreement, under which the Cyberworks Option and CyberWorks Conversion Option were cancelled and CyberWorks was granted another option to subscribe for 88,000,000 shares in COL at an option price of HK\$39,000,000. Pursuant to the agreement, the option should be exercised by seven business days prior to the date of the prospectus for the listing of COL or, on or before 22 November 2001, whichever is the earlier.

The option granted to CyberWorks was lapsed as CyberWorks did not exercise the option seven business days prior to 13 December 2000, the date of the prospectus for the listing of COL's shares on the GEM of the Stock Exchange.

28. Reserves

	Share premium HK\$'000	Contributed surplus HK\$'000	General reserve HK\$'000	Other reserve HK\$'000	Capital reserve HK\$'000	(Accumulated losses)/ retained profits HK\$'000	Total HK\$'000
THE GROUP							
At 1 January 1999	66,311	19,800	1,160	—	—	(237,547)	(150,276)
Conversion of convertible bonds	42,500	—	—	—	—	—	42,500
Issue of shares	704,120	—	—	—	—	—	704,120
Share issue expenses	(43,912)	—	—	—	—	—	(43,912)
Exercise of share options	1,358	—	—	—	—	—	1,358
Arising from deemed disposal of subsidiaries	—	—	—	—	22,521	—	22,521
Net profit for the year	—	—	—	—	—	92,948	92,948
At 31 December 1999 and 1 January 2000	770,377	19,800	1,160	—	22,521	(144,599)	669,259
Reduction of share premium transferred to contributed surplus	(398,582)	398,582	—	—	—	—	—
Amount transfer to write off against the accumulated losses and for distribution of shares in COL	—	(398,582)	—	—	—	398,582	—
Issue of shares	327,373	—	—	—	—	—	327,373
Share issue expenses	(6,367)	—	—	—	—	—	(6,367)
Issue of warrants	—	—	—	59,573	—	—	59,573
Exercise of share options	3,153	—	—	—	—	—	3,153
Exercise of warrants	267	—	—	—	—	—	267
Reduction of share premium transferred to contributed surplus	(500,000)	500,000	—	—	—	—	—
Realisation on completion of the deemed disposal of subsidiaries	—	—	—	—	(22,521)	—	(22,521)
Goodwill on acquisition of subsidiaries and associates	—	(456,926)	—	—	—	—	(456,926)
Net profit for the year	—	—	—	—	—	101,767	101,767
Arising on distribution	—	—	—	12,314	—	—	12,314
Distribution	—	—	—	—	—	(87,042)	(87,042)
At 31 December 2000	196,221	62,874	1,160	71,887	—	268,708	600,850
Attributable to:							
Company and subsidiaries	196,221	62,874	1,160	71,887	—	326,702	658,844
Associates	—	—	—	—	—	(57,994)	(57,994)
	196,221	62,874	1,160	71,887	—	268,708	600,850

28. Reserves (continued)

	Share premium HK\$'000	Contributed surplus HK\$'000	Other reserve HK\$'000	(Accumulated losses)/ retained profits HK\$'000	Total HK\$'000
THE COMPANY					
At 1 January 1999	66,311	80,593	–	(297,180)	(150,276)
Conversion of convertible bonds	42,500	–	–	–	42,500
Issue of shares	704,120	–	–	–	704,120
Share issue expenses	(45,950)	–	–	–	(45,950)
Exercise of share options	1,358	–	–	–	1,358
Net loss for the year	–	–	–	(14,360)	(14,360)
At 31 December 1999 and 1 January 2000	768,339	80,593	–	(311,540)	537,392
Reduction of share premium transferred to contributed surplus	(398,582)	398,582	–	–	–
Amount transfer to write off against the accumulated losses and for distribution of shares in COL	–	(398,582)	–	398,582	–
Reduction of share premium transferred to contributed surplus	(500,000)	500,000	–	–	–
Issue of shares	327,373	–	–	–	327,373
Share issue expenses	(6,367)	–	–	–	(6,367)
Issue of warrants	–	–	59,573	–	59,573
Exercise of share options	3,153	–	–	–	3,153
Exercise of warrants	267	–	–	–	267
Net loss for the year	–	–	–	(23,595)	(23,595)
Distribution	–	–	–	(87,042)	(87,042)
At 31 December 2000	194,183	580,593	59,573	(23,595)	810,754

28. Reserves (continued)

The contributed surplus of the Group arose as a result of the group reorganization in 1994 and represents the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the group reorganization and the nominal value of the share capital of the Company issued in exchange therefore.

The contributed surplus of the Company arose as a result of the group reorganization in 1994 and represents the excess of the then combined net assets of the subsidiaries acquired, over the nominal value of the share capital of the Company issued in exchange therefore.

The capital reserve of the Group as at 31 December 1999 represented gain arising from the deemed disposal of interests in subsidiaries in which the disposal had not yet been completed at the year ended 31 December 1999. During the year, the amount was transferred to the income statement on completion of the disposal of subsidiaries.

Pursuant to the special resolutions passed at the special general meetings of the Company held on 1 September 2000 and 22 December 2000, the share premium account of the Company was reduced by approximately HK\$398,582,000 and HK\$500,000,000 respectively. The amount of HK\$398,582,000 arising from the reduction of the share premium account was credited to the contributed surplus account. An amount of HK\$398,582,000 of the contributed surplus was written off against the accumulated losses of the Company as at 1 September 2000 and for the distribution of shares in COL as special dividend in specie to the shareholders of the Company. Particulars of the reduction were set out in the Company's circular dated 2 August 2000 and were approved by the shareholders on 1 September 2000. The amount of HK\$500,000,000 arising from the reduction of the share premium account was credited to the contributed surplus account. Particulars of the reduction were set out in the Company's circular dated 27 November 2000 and were approved by the shareholders on 22 December 2000.

In the opinion of directors, the Company's reserves available for distribution to shareholders as at 31 December 2000 were as follows.

	<i>HK\$'000</i>
Contributed surplus	580,593
Accumulated losses	<u>(23,595)</u>
	<u><u>556,998</u></u>

Moreover, pursuant to the Companies Act 1981 of Bermuda, the Company's share premium account of HK\$194,183,000 may be distributed in the form of fully paid bonus shares.

29. Deferred Taxation

	THE GROUP		THE COMPANY	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
At 1 January	1,280	1,280	1,200	1,200
Written back during the year (note 10)	(1,280)	—	(1,200)	—
At 31 December	—	1,280	—	1,200

At the balance sheet date, the components of deferred taxation assets/(liabilities), provided and unprovided, were as follows:

	THE GROUP				THE COMPANY			
	Provided 2000 HK\$'000	1999 HK\$'000	Unprovided 2000 HK\$'000	1999 HK\$'000	Provided 2000 HK\$'000	1999 HK\$'000	Unprovided 2000 HK\$'000	1999 HK\$'000
Tax effect of timing difference because of:								
Estimated taxation losses	—	—	75,284	27,773	—	—	—	443
(Excess)/deficit of tax allowances over depreciation	—	(1,280)	(7,368)	(191)	—	(1,200)	107	—
	—	(1,280)	67,916	27,582	—	(1,200)	107	443

The amount of unprovided deferred taxation credit/(charge) for the year, provided and unprovided, were as follows:

	THE GROUP				THE COMPANY			
	Provided 2000 HK\$'000	1999 HK\$'000	Unprovided 2000 HK\$'000	1999 HK\$'000	Provided 2000 HK\$'000	1999 HK\$'000	Unprovided 2000 HK\$'000	1999 HK\$'000
Tax effect of timing difference because of:								
Tax losses arising	—	—	47,511	5,838	—	—	(443)	443
(Excess)/deficit of tax allowances over depreciation	—	—	(7,177)	122	—	—	107	—
	—	—	40,334	5,960	—	—	(336)	443

30. Reconciliation of Profit before Taxation to Net Cash Outflow from Operating Activities

	THE GROUP	
	2000	1999
	HK\$'000	HK\$'000
Profit before taxation	60,674	89,670
Share of losses of associates	57,994	–
Gain on deemed disposal of interests in COL and its subsidiaries	(157,724)	(118,608)
Gain on disposal of investment securities	(37,500)	–
Interest on bank borrowings	13,102	18,091
Amortisation of intangible assets	1,823	–
Depreciation	18,773	9,631
Impairment loss arising on investment securities	15,600	–
Write off of deposit for the development of foreign exchange internet platform	1,950	–
Provision for bad and doubtful debts	30,900	–
Loss on disposal of property and equipment	250	3,809
Unrealized loss on other investments	6,874	–
Increase in other investments	(36,303)	(389)
Increase in bank trust and segregated accounts	(45,055)	(144,690)
Increase in loans receivable	(200,304)	–
Decrease/(increase) in accounts receivable	230,382	(425,394)
Increase in prepayments, deposits and other receivables	(22,117)	(47,509)
(Decrease)/increase in accounts payable	(26,832)	212,423
Increase in accrued liabilities and other payables	18,852	23,445
Increase in amount due to an affiliated company	45,850	–
	<u> </u>	<u> </u>
Net cash outflow from operating activities	<u>(22,811)</u>	<u>(379,521)</u>

31. Distribution of Shares in COL

On 1 September 2000, the Company distributed 498,123,127 shares of COL to the shareholders of the Company thereby reducing the Company's interest in COL from 65.80% to 41.08%. The net assets disposed of were as follows:

	2000 HK\$'000	1999 HK\$'000
NET ASSETS DISPOSED OF		
Property and equipment	17,749	—
Prepayments, deposits and other receivables	15,244	—
Bank balances	336,253	—
Accrued liabilities and other payables	(21,073)	—
Amount due to an affiliated company	(45,850)	—
	<u>302,323</u>	<u>—</u>
Less: Minority interests	(103,395)	—
	<u>198,928</u>	<u>—</u>
Distribution in specie	87,042	—
Other reserve arising from distribution	(12,314)	—
Interest in COL	<u>124,200</u>	<u>—</u>
	<u>198,928</u>	<u>—</u>
NET CASH OUTFLOW ARISING ON DISPOSAL		
Bank balances disposed of	<u>(336,253)</u>	<u>—</u>

The subsidiary disposed of during the year utilized approximately HK\$71 million (1999: nil) of the Group's net operating cash flows, contributed approximately HK\$219 million (1999: nil) in respect of financing activities and utilized approximately HK\$26 million (1999: nil) for investing activities. The results of COL attributable to the Group have been disclosed in the consolidated income statement.

32. Acquisition of Subsidiaries

	2000 HK\$'000	1999 HK\$'000
NET ASSETS ACQUIRED		
Property and equipment	48,324	—
Prepayments, deposits and other receivables	16,562	—
Bank balances and cash	265,255	—
Accrued liabilities and other payables	(58,354)	—
Minority interests	(124,405)	—
	<u>147,382</u>	<u>—</u>
Interests in associates	(70,760)	—
Goodwill on consolidation	423,702	—
	<u>500,324</u>	<u>—</u>
SATISFIED BY		
Shares allotted	277,888	—
Cash	222,436	—
	<u>500,324</u>	<u>—</u>
NET CASH INFLOW/(OUTFLOW) ARISING ON ACQUISITION		
Cash consideration	(222,436)	—
Bank balances and cash acquired	265,255	—
	<u>42,819</u>	<u>—</u>

During the period since acquisitions, the subsidiaries acquired have utilized approximately HK\$28 million to the Group's net operating cash flows, utilized approximately HK\$9 million in respect of financing activities and utilized approximately HK\$26 million for investing activities.

33. Analysis of Changes in Financing during the Years

	Share capital and share premium HK\$'000	Loans from former ultimate holding company HK\$'000	Convertible note and convertible bonds HK\$'000	Other reserve HK\$'000	Obligations under finance leases HK\$'000	Minority interests HK\$'000	Pledged bank deposits HK\$'000
At 1 January 1999	280,328	55,000	–	–	–	–	–
Net cash inflow/(outflow) from financing	801,116	(55,000)	185,000	–	(614)	–	–
Increase in minority interests upon deemed partial disposal of interests in certain subsidiaries	–	–	–	–	–	55,942	–
Conversion of convertible note and convertible bonds	185,000	–	(185,000)	–	–	–	–
Share of net loss	–	–	–	–	–	(1,567)	–
Inception of finance lease	–	–	–	–	4,651	–	–
Bank deposits pledged during the year	–	–	–	–	–	–	(30,000)
At 1 January 2000	1,266,444	–	–	–	4,037	54,375	(30,000)
Net cash inflow/(outflow) from financing	142,861	–	–	–	(1,926)	–	–
Issue of shares for acquisition of additional interest in a subsidiary	277,888	–	–	–	–	–	–
Reduction of share premium transferred to distributed surplus	(398,582)	–	–	–	–	–	–
Reduction of share premium transferred to accumulated losses	(500,000)	–	–	–	–	–	–
Issue of warrants	–	–	–	59,573	–	–	–
Arising on distribution	–	–	–	12,314	–	–	–
Increase in minority interests upon deemed partial disposal of interests in certain subsidiaries	–	–	–	–	–	84,222	–
Increase in minority interests upon acquisition of subsidiaries	–	–	–	–	–	124,405	–
Decrease in minority interests upon distribution of shares in COL	–	–	–	–	–	(103,395)	–
Share of net loss	–	–	–	–	–	(39,665)	–
Inception of finance lease contracts	–	–	–	–	1,662	–	–
Proceeds received from uplifting of pledged bank deposits	–	–	–	–	–	–	30,000
Bank deposits pledged during the year	–	–	–	–	–	–	(28,137)
At 31 December 2000	788,611	–	–	71,887	3,773	119,942	(28,137)

34. Major Non-cash Transactions

During the year, the Company acquired a 8.7% interest in COL at a consideration of approximately HK\$277,888,000. The consideration was satisfied by the issue and allotment of 463,146,750 shares of the Company.

During the year, the Company distributed 498,123,127 shares of COL to the shareholders of the Company by way of distribution in specie, effect of which are set out in note 31 to the financial statements.

35. Contingent Liabilities

At 31 December 2000, the Group had no significant contingent liabilities.

The Company has given guarantees to banks in respect of general facilities granted to its subsidiaries. The extent of such facilities utilised by the subsidiaries at 31 December 2000 amounted to approximately HK\$121,362,000 (1999: HK\$109,851,000).

36. Lease Commitments

At the balance sheet date, the Group and the Company had outstanding commitments payable in the following year under non-cancellable operating leases in respect of land and buildings as follows:

	THE GROUP		THE COMPANY	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Operating leases which expire:				
Within one year	5,942	3,283	5,480	–
In the second to fifth year inclusive	23,747	15,310	13,163	11,230
	<u>29,689</u>	<u>18,593</u>	<u>18,643</u>	<u>11,230</u>

37. Other Commitments

At the balance sheet date, the Group and the Company had the following other commitments:

	THE GROUP		THE COMPANY	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Undrawn loan commitment to a borrower	8,000	—	—	—
Contracted commitment in respect of advertising expenditure	3,220	3,776	—	—
Contracted commitment in respect of licence rights for using a browser-accessible foreign exchange internet platform	—	2,334	—	—
Contracted commitments in respect of long term investments/projects	—	57,600	—	—
Commitment authorized but not contracted for in respect of the subscription of 400 million shares of King Pacific International Holding Limited	—	100,000	—	100,000
	<u>11,220</u>	<u>163,710</u>	<u>—</u>	<u>100,000</u>

38. Related Party Transactions

During the year, the Group had the following significant related party transactions:

- (a) Pursuant to the placing agreement entered into between the Company and Cash Guardian, the Company issued a total of 479 million (1999: 428 million) of shares at a total consideration of approximately HK\$144 million (1999: HK\$210 million) to Cash Guardian. Details of the placement of the Company's shares are set out in note 27(d) to the financial statements.
- (b) During the year, the Group acquired a 8.7% interest in COL from Cash Guardian at a consideration of approximately HK\$277,888,000. The consideration was satisfied by the issue and allotment of 463,146,750 shares in the Company.
- (c) During the year, the Group pledged bank deposits of HK\$27,260,000 (1999: nil) to secure general banking facilities granted to an associate by a bank. At the balance sheet date, the associate had not yet utilized these banking facilities.
- (d) In 1999, the Group paid interest of HK\$1,008,000 in respect of the convertible note of HK\$100 million, which bore interest at the rate of 4% per annum, to Cash Guardian. The entire convertible note was converted into shares in the Company by Cash Guardian in 1999. Thus, no similar interest was paid by the Group during the year.
- (e) In 1999, the Group paid interest of HK\$3,934,000 to CCT Telecom Holdings Limited ("CCT"), the former ultimate holding company. The interest was calculated at the rates ranging from 10% to 12% per annum on the outstanding amounts due to CCT. The amount due to CCT was fully repaid in 1999. Thus, no similar interest was paid by the Group during the year.

39. Post Balance Sheet Event

On 9 February 2001, the Company entered into agreements with Miliway Resources Limited ("Miliway") and Joyplace Inc ("Joyplace"), pursuant to which the Company agreed to purchase or procure the purchase of 320,000,000 and 115,132,000 shares of HK\$0.10 each in Pricerite respectively from Miliway and Joyplace at considerations of HK\$112,000,000 and HK\$40,296,200 respectively. The considerations will be settled by the issue and allotment of 373,333,333 and 134,320,667 shares of HK\$0.10 each in the Company. Upon completion of the agreement with Miliway, the Company will made unconditional general offers for all the then issued shares in Pricerite and the outstanding options which entitle the holders to subscribe for the shares in Pricerite other than those already owned or agreed to be acquired by the Company or parties acting in concert with the Company. The consideration for the unconditional general offer of the shares in Pricerite will be settled at the discretion of the offerees either by cash or by seven shares in the Company for every six shares in Pricerite. The total consideration for the acquisition of the entire issued shares in and options of Pricerite is approximately HK\$220,037,000.