

COPY

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REPORT OF THE AUDITORS

TO THE SHAREHOLDERS OF LLOYDS SECURITIES OVERSEAS LIMITED
(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 4 to 8 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view, in all material respects, of the state of the company's affairs as at 31st December 1996 and of its loss for the year then ended have been properly prepared in accordance with the Companies Ordinance.

Pannell Kerr Forster

Chartered Accountants
Certified Public Accountants, Hong Kong

25 FEB 1999

LLOYDS SECURITIES OVERSEAS LIMITED

PROFIT AND LOSS ACCOUNT

YEAR ENDED 31ST DECEMBER, 1996

	Note	01.01.96 to <u>31.12.96</u> HK\$	23.06.94 to <u>31.12.95</u> HK\$
TURNOVER	2	- =====	- =====
OPERATING LOSS	3	(1,097,632)	1,267,129
TAXATION	4	-	-
LOSS FOR THE YEAR/PERIOD		<u>(1,097,632)</u> =====	<u>1,267,129</u> =====

STATEMENT OF ACCUMULATED LOSSES

Balances brought forward	(1,267,129)	-
Loss for the year/period	(1,097,632)	(1,267,129)
Balances carried forward	<u>(2,364,761)</u> =====	<u>(1,267,129)</u> =====

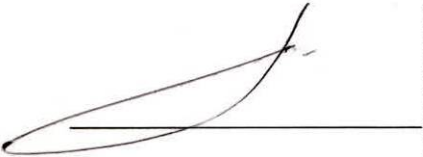
The notes on pages 6 to 8 form an integral part of these accounts.


Auditors' report - page 3

LLOYDS SECURITIES OVERSEAS LIMITED
BALANCE SHEET - 31ST DECEMBER, 1996

	Note	<u>1996</u> HK\$	<u>1995</u> HK\$
EMPLOYMENT OF CAPITAL			
FIXED ASSETS	5	73,589	71,925
CURRENT ASSETS	6	72,608	163,826
Deduct :-			
CURRENT LIABILITIES	7	2,510,918	1,502,840
NET CURRENT LIABILITIES		(2,438,310)	(1,339,014)
		(2,364,721)	(1,267,089)
		=====	=====
 CAPITAL EMPLOYED			
SHARE CAPITAL	8	40	40
ACCUMULATED LOSSES		(2,364,761)	(1,267,129)
CAPITAL DEFICIENCY		(2,364,721)	(1,267,089)
		=====	=====

Approved by the Board of Directors on 22 FEB 1999
On behalf of the Board



) GCG
)
) Directors
)


) SA
)
)

The notes on pages 6 to 8 form an integral part of these accounts.

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NOTES TO THE ACCOUNTS - 31ST DECEMBER, 1996

1 PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

The company has a capital deficiency amounting to HK\$2,364,721 as at 31st December, 1996. The accounts have been prepared on the going concern basis, the validity of which depends upon the continued financial support of the shareholders.

(b) Depreciation

Depreciation on fixed assets is calculated to write off their cost on the straight line basis over their expected useful lives to the company. The principal annual rates used for this purpose are:-

Furniture and fixtures	20%
Office equipment	20%
Leasehold improvements	20%
Computer equipment	30%

(c) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. Foreign currency transactions during the period are translated at the rates ruling at the dates of the transactions. Profits and losses resulting from the above translation policy are included in the profit and loss account.

(d) Taxation

The charge for taxation is based on the profit for the year as adjusted for items which are non-assessable or disallowable.

(e) 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.

(f) Operating leases

Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

2 TURNOVER

The company derived no income during the year.

NOTES TO THE ACCOUNTS - 31ST DECEMBER, 1996

3 OPERATING LOSS

The operating loss is stated after charging :-

	01.01.96	23.06.94
	to	to
	<u>31.12.96</u>	<u>31.12.95</u>
	HK\$	HK\$
Directors' emoluments	-	-
Auditors' remuneration	7,700	7,000
Company formation expenses	-	13,750
Operating lease rentals	332,560	745,338
	=====	=====

4 TAXATION

No provision for Hong Kong profits tax has been made in the accounts as the company has no assessable profits for the year.

5 FIXED ASSETS

	<u>Leasehold</u> <u>improvements</u>	<u>Furniture</u> <u>and</u> <u>fixtures</u>	<u>Computer</u> <u>equipment</u>	<u>Office</u> <u>equipment</u>	<u>Total</u>
	HK\$	HK\$	HK\$	HK\$	HK\$
Cost					
At 1st January, 1996	24,450	32,565	43,450	29,688	130,153
Additions	-	3,300	42,000	-	45,300
	-----	-----	-----	-----	-----
At 31st December, 1996	24,450	35,865	85,450	29,688	175,453
	-----	-----	-----	-----	-----
Depreciation					
At 1st January, 1996	9,780	13,026	17,610	17,812	58,228
Charge for the year	4,890	7,173	25,635	5,938	43,636
	-----	-----	-----	-----	-----
At 31st December, 1996	14,670	20,199	43,245	23,750	101,864
	-----	-----	-----	-----	-----
Net book value					
At 31st December, 1996	9,780	15,666	42,205	5,938	73,589
	=====	=====	=====	=====	=====
At 31st December, 1995	14,670	19,539	25,840	11,876	71,925
	=====	=====	=====	=====	=====

NOTES TO THE ACCOUNTS - 31ST DECEMBER, 1996

6 CURRENT ASSETS

	<u>1996</u> HK\$	<u>1995</u> HK\$
Amounts due from shareholders	40	40
Deposits	67,626	144,234
Accounts receivable	-	15,785
Cash at bank	4,942	3,767
	<u>72,608</u> =====	<u>163,826</u> =====

Amounts due from shareholders are unsecured, interest free and have no fixed repayment terms.

7 CURRENT LIABILITIES

	<u>1996</u> HK\$	<u>1995</u> HK\$
Accounts payable and accrued charges	53,888	9,500
Amounts due to affiliated companies	2,457,030	1,492,378
Bank overdrafts	-	962
	<u>2,510,918</u> =====	<u>1,502,840</u> =====

8 SHARE CAPITAL

Authorised		
1,000 shares of HK\$10 each	10,000	10,000
	=====	=====
Issued and fully paid		
4 shares of HK\$10 each	40	40
	=====	=====

9 LEASE COMMITMENTS

At the balance sheet date, the company had the following annual commitments under a non-cancellable operating lease in respect of rental premises:-

	<u>1996</u> HK\$	<u>1995</u> HK\$
Operating lease which expires:		
Within one year	167,080	94,500
In the second to fifth years inclusive	-	-
	<u>167,080</u> =====	<u>94,500</u> =====

LLOYDS SECURITIES OVERSEAS LIMITED

DETAILED PROFIT AND LOSS ACCOUNT

YEAR ENDED 31ST DECEMBER, 1996

	01.01.96 to <u>31.12.96</u> HK\$	23.06.94 to <u>31.12.95</u> HK\$
INCOME		
Other income	195	-
Interest income	737	796
	<u>932</u>	<u>796</u>
	-----	-----
EXPENSES		
Audit fee	7,700	7,000
Company formation expenses	-	13,750
Legal and professional fees	29,662	6,500
Books and periodicals	2,230	2,835
Bank charges and interest	690	2,018
Entertainment	-	6,066
Business promotion expenses	20,998	2,012
Electricity	352	4,058
Local and overseas travelling	33,385	17,133
Postage and courier	3,490	1,080
Printing and stationery	2,372	2,391
Memberships and subscriptions	44,688	10,750
Telephone and fax	128,040	112,484
Office expenses	4,300	5,263
Rent and rates - office	346,994	615,984
Rent and rates - staff quarters	127,800	129,354
Staff quarter expenses	12,268	41,265
Salaries	276,000	221,586
Depreciation	43,636	58,228
Sundry expenses	13,109	8,168
Insurance	850	-
	<u>1,098,564</u>	<u>1,267,925</u>
	-----	-----
LOSS FOR THE YEAR/PERIOD	(1,097,632)	(1,267,129)
	=====	=====