

Notes to the Financial Statements

31 December 2002

1. CORPORATE INFORMATION

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

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

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

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

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”)

The following new and revised SSAPs are effective for the first time for the current year’s financial statements:

- SSAP 1 (Revised) : “Presentation of financial statements”
- SSAP 11 (Revised) : “Foreign currency translation”
- SSAP 15 (Revised) : “Cash flow statements”
- SSAP 34 : “Employee benefits”

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group’s accounting policies and on the amounts disclosed in these financial statements of those SSAPs which have had a significant effect on the financial statements are summarised as follows:

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision of this SSAP is that a consolidated statement of changes in equity is now presented on pages 22 to 23 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group’s reserves note.

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2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”) (Continued)

SSAP 15 prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated into Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date, and the definition of cash equivalents for the purpose of the consolidated cash flow statement has been revised. Further details of these changes are included in the accounting policy for “Cash and cash equivalents” in note 3 and in note 29 to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in the recognition of an accrual for paid holiday carried forward by the Group’s employees as at the balance sheet date, further details of which are included in the accounting policy for “Employee benefits” in note 3 to the financial statements. In addition, disclosures are now required in respect of the Company’s share option scheme, as detailed in note 27 to the financial statements. These share option scheme disclosures are similar to the disclosures previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of adopting this SSAP.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2002. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company’s subsidiaries.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital, or controls the composition of its board of directors.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land and building	Over the lease terms
Leasehold improvements	Over the lease terms
Furniture and equipment	10%-25%
Motor vehicles	20%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year.

Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leased assets

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

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Intangible assets

Intangible assets, representing the eligibility rights to trade on or through the Hong Kong Stock Exchange (the "Stock Exchange Trading Rights") and the Hong Kong Futures Exchange (the "Futures Exchange Trading Rights"), are stated at cost less accumulated amortisation. Cost was determined by the directors according to the methodology detailed in note 16.

Amortisation is calculated on the straight-line basis to write off the cost of the trading rights over their estimated useful life of ten years.

Other assets

Other assets are intended to be held on a long term basis and are stated at cost less any impairment losses, on an individual basis.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Long term investments

Long term investments are non-trading investments in listed equity securities intended to be held on a long term basis and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis.

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

Short term investments

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

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) commission and brokerage income, accrued on all broking transactions on a trade date basis;
- (b) profit or loss on the trading of securities, bullion and futures contracts, on a trade date basis;
- (c) dividend income, when the shareholders' right to receive payment has been established;
- (d) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (e) from the rendering of services, based on the stage of completion of the transaction, provided that the costs involved can be measured reliably. The stage of completion of a transaction associated with the rendering of services is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction; and
- (f) rental income, on a time proportion basis over the lease terms.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends are approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Employee benefits

Paid leave carried forward

The Group provides annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual has to be made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Prior to the adoption of SSAP 34 during the year, as explained in note 2 to the financial statements, the Group did not accrue for annual leave carried forward at the balance sheet date. This change in accounting policy has had no material effect on the amounts previously recorded in the financial statements and therefore no prior year adjustment has been made.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A contingent liability has not been disclosed or a provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the Scheme.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations, and attracting and retaining employees of appropriate experience to work for the Group. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange equalisation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Prior to the adoption of the revised SSAPs 11 and 15 during the year, the profit and loss accounts and the cash flows of overseas subsidiaries were translated to Hong Kong dollars at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAPs 11 and 15 have had no material effect on the amounts previously reported in financial statements.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

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4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the services they provide. Each of the Group's business segments represents a strategic business unit that offers services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (a) the broking segment engages in securities, bullion and commodities broking;
- (b) the trading and investment segment engages in securities, bullion and commodities trading and investment holding;
- (c) the margin financing segment engages in the provision of margin financing;
- (d) the money lending segment engages in the provision of personal loan financing;
- (e) the corporate advisory and underwriting segment engages in the provision of corporate advisory and underwriting services;
- (f) the property investment segment engages in property rental; and
- (g) the corporate and other segment comprises corporate income, expense, asset and liability items.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment transactions are conducted with reference to the prices charged to third parties at the then prevailing market prices.

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4. SEGMENT INFORMATION (Continued)

(a) Business segments

The following tables represent revenue, profit and certain asset, liability and expenditure information for the Group's business segments.

2002

GROUP	Broking HK\$'000	Trading and investment HK\$'000	Margin financing HK\$'000	Corporate		Property investment HK\$'000	Corporate and other HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
				Money lending HK\$'000	advisory and underwriting HK\$'000				
Segment revenue:									
Sales to external customers	44,668	(12,337)	18,611	39,918	13,505	1,438	3,981	—	109,784
Intersegment sales	—	—	1,222	—	—	—	—	(1,222)	—
	44,668	(12,337)	19,833	39,918	13,505	1,438	3,981	(1,222)	109,784
Segment results	(61,280)	(115,601)	(23,915)	293	(2,057)	(20,730)	(506)	—	(223,796)
Finance costs									(1,459)
Loss before tax									(225,255)
Tax									(403)
Loss before minority interests									(225,658)
Minority interests									(3)
Net loss from ordinary activities attributable to shareholders									(225,661)
Segment assets	213,183	45,413	182,384	92,520	1,744	79,141	30,440	(5,132)	639,693
Unallocated assets									1,094
Total assets									640,787
Segment liabilities	183,308	5,502	130,910	60,865	910	45,961	3,486	(5,132)	425,810
Unallocated liabilities									117
Total liabilities									425,927
Other segment information:									
Depreciation and amortisation	(5,107)	(367)	(306)	(2,456)	(569)	(456)	(15)	—	(9,276)
Impairment of long term investments	—	(22,560)	—	—	—	—	—	—	(22,560)
Provisions for bad and doubtful debts	—	—	(26,473)	(26,773)	—	—	—	—	(53,246)
Capital expenditure	2,149	160	133	612	305	53	—	—	3,412

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4. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

2001

GROUP	Broking HK\$'000	Trading and investment HK\$'000	Margin financing HK\$'000	Money lending HK\$'000	Corporate advisory and underwriting HK\$'000	Property investment HK\$'000	Corporate and other HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Segment revenue:									
Sales to external Customers	58,335	(1,561)	34,196	32,964	6,117	—	6,046	—	136,097
Intersegment sales	—	—	2,047	—	—	1,999	—	(4,046)	—
	58,335	(1,561)	36,243	32,964	6,117	1,999	6,046	(4,046)	136,097
Segment results	(48,619)	20,145	(8,008)	2,429	(1,683)	(737)	(3,954)	—	(40,427)
Realisation of warrant subscription reserve									63,050
Profit from operating activities									22,623
Finance costs									(1,451)
Profit before tax									21,172
Tax									(981)
Profit before minority interests									20,191
Minority interests									(217)
Net profit from ordinary activities attributable to shareholders									19,974
Segment assets	198,980	128,644	263,173	126,283	1,614	97,178	68,915	(13,025)	871,762
Unallocated assets									1,098
Total assets									872,860
Segment liabilities	151,158	13,342	251,085	80,784	679	337	5,234	(13,025)	489,594
Unallocated liabilities									20,726
Total liabilities									510,320
Other segment Information:									
Depreciation and amortisation	(5,975)	(347)	(450)	(1,697)	(373)	(2,000)	(169)	—	(11,011)
Impairment losses of long term investments	—	(5,552)	—	—	—	—	—	—	(5,552)
Provisions for bad and doubtful debts	—	—	(20,000)	(9,922)	—	—	—	—	(29,922)
Capital expenditure	5,051	307	399	4,701	307	—	123	—	10,888

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4. SEGMENT INFORMATION (Continued)

(b) Geographical segments

Over 90% of the Group's revenue, results, assets and liabilities are derived from operations in Hong Kong.

5. TURNOVER

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

Revenue from the following activities has been included in turnover:

	GROUP	
	2002 HK\$'000	2001 HK\$'000
Commission and brokerage income	43,991	59,437
Loss on trading of securities, bullion and futures contracts, net	(13,218)	(7,183)
Dividend income	881	5,622
Interest income	56,382	64,000
Rendering of services	13,338	6,108
Gross rental income	1,382	—
	102,756	127,984

6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	Notes	GROUP	
		2002 HK\$'000	2001 HK\$'000
Cost of services provided		25,995	40,221
Auditors' remuneration		632	741
Depreciation	14	9,114	10,849
Loss on disposal of fixed assets		49	1,536
Amortisation of intangible assets	16	162	162
Operating lease rentals in respect of land and buildings		15,747	13,681

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6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES (Continued)

	Notes	GROUP	
		2002 HK\$'000	2001 HK\$'000
Staff costs (including directors' remuneration):			
Pension scheme contributions		2,710	2,986
Less: Forfeited contributions		(1,033)	(29)
Net pension benefits contributions	(a)	1,677	2,957
Wages and salaries		63,868	63,385
		65,545	66,342
Interest expense for margin financing and money lending operations:			
Bank and other borrowings wholly repayable within five years		10,425	17,195
Clients		1,333	3,407
		11,758	20,602
Loss on disposal of long term investments	(b)	61,225	3,177
Impairment of long term investments	(c)	22,560	5,552
Loss/(profit) on trading of short term investments		13,369	(4,243)
Foreign exchange losses/(gains), net		(459)	264
Interest income:	(d)		
Banks and financial institutions		(3,245)	(6,065)
Clients		(52,513)	(56,677)
Intermediate holding company		(3,910)	(5,827)
Fellow subsidiaries		(624)	(1,258)
		(60,292)	(69,827)
Dividend income from listed investments		(881)	(5,622)
Net rental income		(1,362)	—

Notes:

- (a) At 31 December 2002, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2001: Nil).
- (b) The loss on disposal of long term investments included a deficit of HK\$62,079,000 (2001:HK\$770,000) transferred from the long term investment revaluation reserve.
- (c) The impairment of long term investments included a deficit of HK\$20,926,000 (2001:5,552,000) transferred from the long term investment revaluation reserve.
- (d) The Group's interest income was derived principally from margin financing and money lending operations, except for the interest income from an intermediate holding company, details of which are set out in notes 22 and 33 to the financial statements, respectively.

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7. FINANCE COSTS

	GROUP	
	2002 HK\$'000	2001 HK\$'000
Interest on:		
Mortgage loan	1,411	1,451
Finance lease	48	—
	1,459	1,451

8. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Rules governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules") and Section 161 of the Companies Ordinance is as follows:

	GROUP					
	Executive		Non-executive		Independent non-executive	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Fees	50	49	10	10	76	76
Other emoluments:						
Salaries, allowances and benefits in kind	7,406	7,473	—	—	124	107
Pension scheme contributions	294	265	—	—	—	—
Bonuses paid and payable	—	273	—	—	—	—
	7,750	8,060	10	10	200	183

The remuneration of directors fell within the following bands:

	Number of directors	
	2002	2001
Nil - HK\$1,000,000	5	3
HK\$1,000,001 - HK\$1,500,000	2	5
HK\$1,500,001 - HK\$2,000,000	1	1
	8	9

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8. DIRECTORS' REMUNERATION (Continued)

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

During the year, no share options were granted to the directors in respect of their services to the Group. In the prior year, 20,000,000 share options were granted to a director, details of which are set out in note 27 to the financial statements. No value in respect of these share options granted during that year had been charged to the profit and loss account, or is otherwise included in the above directors' remuneration disclosures.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2001: five) executive directors, details of whose remuneration are disclosed in note 8 above. Details of the remuneration of the remaining two (2001: Nil) non-director, highest paid employees are as follows:

	GROUP	
	2002 HK\$'000	2001 HK\$'000
Salaries, allowances and benefits in kind	3,671	—
Pension scheme contributions	24	—
	3,695	—

The remuneration of the non-director, highest paid employees fell within the following bands:

	Number of employees	
	2002 HK\$'000	2001 HK\$'000
HK\$1,000,001 - HK\$1,500,000	1	—
HK\$2,000,001 - HK\$2,500,000	1	—
	2	—

During the year, no share options were granted to the two non-director, highest paid employees in respect of their services to the Group.

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10. TAX

	GROUP	
	2002 HK\$'000	2001 HK\$'000
Provision for the year:		
Hong Kong	277	850
Elsewhere	185	148
Overprovision in prior year	(59)	(5)
	403	993
Deferred tax	—	(12)
Tax charge for the year	403	981

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits arising in or derived from Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, practices and interpretations in respect thereof.

The principal components of the net deferred tax assets of the Company and the Group which have not been recognised in the financial statements are as follows:

	GROUP		COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Accelerated depreciation allowances	420	568	—	—
Tax losses	(52,702)	(33,945)	(317)	(318)
	(52,282)	(33,377)	(317)	(318)

11. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2002 dealt with in the financial statements of the Company is HK\$123,923,000 (2001: net profit from ordinary activities attributable to shareholders of HK\$33,144,000).

Notes to the Financial Statements

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12. DIVIDENDS

	2002 HK\$'000	2001 HK\$'000
Interim:		
Nil (2001: 0.425 HK cent) per ordinary share	—	20,682
Proposed final:		
Nil (2001: 0.1 HK cent) per ordinary share	—	4,862
	—	25,544

13. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net loss from ordinary activities attributable to shareholders of HK\$225,661,000 (2001: net profit from ordinary activities attributable to shareholders of HK\$19,974,000) and the weighted average of 4,861,898,979 (2001: 4,863,801,133) ordinary shares in issue during the year.

A diluted loss per share for the year ended 31 December 2002 has not been disclosed as no diluting events existed during the year.

The calculation of diluted earnings per share for the year ended 31 December 2001 was based on the net profit attributable to shareholders for the year of HK\$19,974,000. The weighted average number of ordinary shares used in the calculation was 4,863,801,133 ordinary shares in issue during that year, as used in the basic earnings per share calculation; the weighted average of 77,447,441 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all warrants outstanding during that year. The share options outstanding during the year ended 31 December 2001 had an anti-dilutive effect on the basic earnings per share and therefore were excluded from the calculation of diluted earnings per share for that year.

Notes to the Financial Statements

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14. FIXED ASSETS

GROUP

	Leasehold land and building	Leasehold improvements	Furniture and equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost:					
At beginning of year	100,000	15,120	30,747	3,316	149,183
Additions	—	1,187	2,225	—	3,412
Disposals	—	(124)	(79)	—	(203)
Transfer to investment property	(100,000)	—	—	—	(100,000)
Exchange realignment	—	63	28	—	91
At 31 December 2002	—	16,246	32,921	3,316	52,483
Accumulated depreciation:					
At beginning of year	3,167	9,466	18,196	3,209	34,038
Provided during the year	333	3,404	5,316	61	9,114
Disposals	—	(87)	(44)	—	(131)
Transfer to investment property	(3,500)	—	—	—	(3,500)
Exchange realignment	—	45	25	—	70
At 31 December 2002	—	12,828	23,493	3,270	39,591
Net book value:					
At 31 December 2002	—	3,418	9,428	46	12,892
At 31 December 2001	96,833	5,654	12,551	107	115,145

The net book value of the Group's fixed assets held under finance lease included in furniture and equipment at 31 December 2002 amounted to HK\$815,000 (2001: Nil).

Notes to the Financial Statements

31 December 2002

14. FIXED ASSETS (Continued)

COMPANY

	Leasehold improvements HK\$'000
Cost:	
At beginning of year and 31 December 2002	2,449
Accumulated depreciation:	
At beginning of year	2,434
Provided during the year	15
At 31 December 2002	2,449
Net book value:	
At 31 December 2002	—
At 31 December 2001	15

15. INVESTMENT PROPERTY

	GROUP	
	2002 HK\$'000	2001 HK\$'000
Transfer from fixed assets (note 14)	96,500	—
Deficit on revaluation	(18,500)	—
At 31 December	78,000	—

The Group's investment property is situated in Hong Kong and is held under a long term lease. At the balance sheet date, the investment property was pledged to secure banking facilities granted to the Group (note 30).

The Group's investment property was revalued at 31 December 2002 by BMI Appraisals Limited, independent professional valuers, at open market value based on its existing state. The investment property is leased to third parties under operating lease arrangements, details of which are included in note 32 to the financial statements.

Details of the Group's investment property are as follows:

Location	Existing use
26/F, Tower One, Lippo Centre, 89 Queensway, Hong Kong.	Office rental

Notes to the Financial Statements

31 December 2002

16. INTANGIBLE ASSETS

	GROUP	
	2002 HK\$'000	2001 HK\$'000
Cost:		
At beginning of year and at 31 December	1,619	1,619
Accumulated amortisation:		
At beginning of year	297	135
Provided during the year	162	162
At 31 December	459	297
Net book value at 31 December	1,160	1,322

Pursuant to the restructuring of the Hong Kong Stock Exchange (the "Stock Exchange") and the Hong Kong Futures Exchange (the "Future Exchange"), effective on 6 March 2001, the Group received four Stock Exchange Trading Rights, five Futures Exchange Trading Rights and 10,187,500 ordinary shares of HK\$1 each in Hong Kong Exchanges and Clearing Limited (the "HKEC Shares") in exchange for its four shares previously held in the Stock Exchange and five shares previously held in the Futures Exchange.

The carrying costs of the previously held shares in the Stock Exchange and Futures Exchange have been apportioned to the Stock Exchange Trading Rights, the Futures Exchange Trading Rights and the HKEC Shares on the basis of their respective estimated fair values on 6 March 2001.

The Stock Exchange Trading Rights and Futures Exchange Trading Rights have been classified as intangible assets as above and treated under the accounting policy as set out in note 3 to the financial statements.

17. OTHER ASSETS

	GROUP	
	2002 HK\$'000	2001 HK\$'000
Membership in Chinese Gold and Silver Exchange	1,280	1,280
Statutory deposits in respect of securities and commodities dealings	4,397	4,450
Club debentures	360	360
	6,037	6,090

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18. INTERESTS IN SUBSIDIARIES

	COMPANY	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	99,964	99,869
Amounts due from subsidiaries	386,836	393,429
Amounts due to subsidiaries	(2,708)	(2,708)
	484,092	490,590
Provisions for impairment	(272,100)	(148,100)
	211,992	342,490

The balances with subsidiaries are unsecured, interest-free and have no specific terms of repayment.

Particulars of the principal subsidiaries are as follows:

Name of company	Place of incorporation and operations	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Company		Principal activities
			2002	2001	
Kingwise Secretarial Services Limited	Hong Kong	HK\$2	100	100	Futures contracts trading
Polyluck Trading Limited	Hong Kong	HK\$2	100	100	Property investment
SCtrade.com Limited	Hong Kong	HK\$5,000,000	100	100	Internet securities broking
South China Capital Limited	Hong Kong	HK\$2	100	100	Provision of corporate advisory services
South China Commodities Limited	Hong Kong	HK\$10,000,000	100	100	Commodities broking
South China Finance Company Limited	Hong Kong	HK\$1,000,000	100	100	Margin financing

Notes to the Financial Statements

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18. INTERESTS IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation and operations	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Company		Principal activities
			2002	2001	
South China Finance and Management Limited	Hong Kong	HK\$2	100	100	Shares dealing and provision of management services
South China Finance (Nominees) Limited	Hong Kong	HK\$2	100	100	Provision of nominee services
South China Financial Credits Limited	Hong Kong	HK\$42,125,000	95.2	94.9	Money lending
South China Precious Metal Limited	Hong Kong	HK\$2	100	100	Bullion broking
South China Research Limited	Hong Kong	HK\$600,000	100	100	Research publication
South China Securities Limited	Hong Kong	HK\$10,000,000	100	100	Securities broking and margin financing
South China Securities (UK) Limited	United Kingdom	GBP200,000	100	100	Provision of securities trading services

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

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

Notes to the Financial Statements

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19. INVESTMENTS

Long term investments

	GROUP	
	2002 HK\$'000	2001 HK\$'000
Listed equity investments in Hong Kong, at market value	8,455	31,967

Short term investments

	GROUP	
	2002 HK\$'000	2001 HK\$'000
Listed equity investments, at market value:		
Hong Kong	35,486	95,354
Elsewhere	514	341
	36,000	95,695

At 31 December 2002, certain listed equity investments were pledged to secure banking facilities granted to the Group (note 30).

20. LOANS AND ADVANCES

	GROUP	
	2002 HK\$'000	2001 HK\$'000
Loans and advances	370,444	392,772
Provisions for bad and doubtful debts	(137,366)	(97,809)
	233,078	294,963
Market value of collateral at 31 December	438,365	435,261

At 31 December 2002, certain collateral of clients were pledged to secure banking facilities granted to the Group (note 30).

Amounts receivable from fellow subsidiaries of HK\$1,240,000 (2001: HK\$12,251,000) are included in the Group's loans and advances. These balances are secured on marketable securities, bears interest at 4% (2001: 4%) over the Hong Kong Prime Rate and are repayable on demand.

Notes to the Financial Statements

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20. LOANS AND ADVANCES (Continued)

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

	GROUP	
	2002 HK\$'000	2001 HK\$'000
Repayable:		
On demand	175,269	186,822
Within three months	27,269	41,826
Within one year but over three months	28,076	55,956
Within five years but over one year	2,464	10,359
	233,078	294,963
Portion classified as current assets	(230,614)	(284,604)
Portion classified as long term loans receivable under non-current assets	2,464	10,359

21. TRADE DEBTORS

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

An ageing analysis of the Group's trade debtors net of provisions for bad and doubtful debts at the balance sheet date is as follows:

	GROUP	
	2002 HK\$'000	2001 HK\$'000
Current to 90 days	56,412	24,269

The Group allows a credit period of up to the settlement dates of the respective securities, bullion and commodities transactions or a credit period mutually agreed between the contracting parties.

22. AMOUNT DUE FROM INTERMEDIATE HOLDING COMPANY

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

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23. TRADE CREDITORS

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

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

	GROUP	
	2002 HK\$'000	2001 HK\$'000
Current to 90 days	67,780	19,025

24. FINANCE LEASE PAYABLES

The Group leases certain office equipment for its business operation. These leases are classified as finance leases and have a remaining lease term of 52 months.

At the balance sheet date, the total future minimum lease payments under finance leases and their present values were as follows:

	GROUP			
	Minimum lease payments		Present value of minimum lease payments	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Amounts payable under finance leases:				
Within one year	242	—	171	—
In the second year	242	—	187	—
In the third to fifth years, inclusive	564	—	507	—
Total minimum finance lease payments	1,048	—	865	—
Future finance charges	(183)	—		
Total net finance lease payables	865	—		
Portion classified as current liabilities	(171)	—		
Non-current portion	694	—		

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25. INTEREST-BEARING BANK AND OTHER BORROWINGS

	GROUP		COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Bank overdrafts, secured (<i>note 30</i>)	20,450	3,449	—	—
Bank loans:				
Secured (<i>note 30</i>)	125,250	224,750	—	—
Unsecured	63,355	61,209	2,739	4,359
	188,605	285,959	2,739	4,359
Other loans, unsecured	—	10,000	—	—
	209,055	299,408	2,739	4,359
Bank overdrafts, bank loans and other loans repayable:				
Within one year or on demand	201,192	268,154	1,705	1,846
In the second year	7,863	5,206	1,034	1,846
In the third to fifth years, inclusive	—	26,048	—	667
	209,055	299,408	2,739	4,359
Portion classified as current liabilities	(201,192)	(268,154)	(1,705)	(1,846)
Non-current portion	7,863	31,254	1,034	2,513

Notes to the Financial Statements

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26. SHARE CAPITAL

Shares

	2002 HK\$'000	2001 HK\$'000
Authorised:		
8,000,000,000 ordinary shares of HK\$0.025 each	200,000	200,000
Issued and fully paid:		
4,861,990,940 (2001: 4,862,366,440) ordinary shares of HK\$0.025 each	121,550	121,559

Details of the movement in the issued share capital during the year are as follows:

- (a) 374,500 ordinary shares of HK\$0.025 each were issued for cash at subscription prices ranging from HK\$0.08 to HK\$0.11 per ordinary share pursuant to the exercise of the Company's warrants for a total cash consideration, before expenses, of HK\$39,569.
- (b) 750,000 ordinary shares of HK\$0.025 each were repurchased through the Stock Exchange. Details of the repurchase of shares are summarised as follows:

Month	Number of shares repurchased	Price per share		Total consideration paid HK\$'000
		Highest HK\$	Lowest HK\$	
January 2002	750,000	0.118	0.107	86

The repurchased shares were cancelled during the year and the issued share capital of the Company was reduced by the par value thereof. The premium paid on the repurchase of shares of HK\$68,000 has been charged to retained profits. An amount equivalent to the par value of the shares cancelled has been transferred from retained profits to the capital redemption reserve.

The repurchase of shares during the year were effected by the directors, pursuant to the mandate received from shareholders at the last annual general meeting, with a view to benefiting shareholders as a whole.

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26. SHARE CAPITAL (Continued)

Warrants

At 1 January 2002, the Company had 968,216,648 outstanding warrants which entitled the holders to subscribe in cash for fully paid ordinary shares of HK\$0.025 each in the Company at a subscription price of HK\$0.11 per share on or before 18 April 2002. During the year, 320,300 of these warrants were exercised for 320,300 fully paid ordinary shares of HK\$0.025 each in the Company at HK\$0.11 per share for a total cash consideration, before expenses, of HK\$35,233. The remaining 967,896,348 warrants were lapsed at the expiry date on 18 April 2002.

During the year, a bonus issue of warrants was made in the proportion of one warrant for every five ordinary shares held by members on the register of members on 21 June 2002, resulting in 972,387,348 warrants being issued. These warrants entitle the holders to subscribe in cash for fully paid ordinary shares of HK\$0.025 each in the Company at a subscription price of HK\$0.08 per share (subject to adjustment) at any time from the date of issue to 21 June 2003. Up to 31 December 2002, 54,200 of these warrants were exercised for 54,200 fully paid ordinary shares of HK\$0.025 each in the Company at HK\$0.08 per share for a total cash consideration, before expenses, of HK\$4,336.

At 31 December 2002, the Company had 972,333,148 outstanding warrants. The exercise in full of these warrants would, under the present capital structure of the Company, result in the issue of 972,333,148 additional ordinary shares of the Company and additional share capital of HK\$24,308,329 and share premium of HK\$53,478,323, before issue expenses.

27. SHARE OPTION SCHEMES

SSAP 34 was adopted during the year, as explained in note 2 and under the heading "Employee benefits" in note 3 to the financial statements. As a result, the following detailed disclosures relating to the Company's share option schemes are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the Listing Rules.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Share option scheme arrangement before 18 June 2002

On 12 July 1993, the Company adopted a share option scheme (the "Old Scheme") for the purpose of (i) providing incentives and rewards to eligible participants who contributed to the success of the Group's operations; and (ii) attracting and retaining employees of appropriate qualifications and experience to work for the Group. Eligible participants of the Old Scheme included the Company's directors (including executive, non-executive and independent non-executive directors) and other employees of the Group.

Notes to the Financial Statements

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27. SHARE OPTION SCHEMES (Continued)

Share option scheme arrangement before 18 June 2002 (Continued)

The maximum number of unexercised share options permitted to be granted under the Old Scheme was an amount equivalent, upon their exercise, to 10% of the ordinary shares of the Company in issue at any time. The maximum number of ordinary shares issuable to each eligible participant was limited to 25% of the total ordinary shares issuable under the Old Scheme at any time. During the year, no share options were granted, exercised, lapsed or cancelled under the Old Scheme. At 31 December 2002, the number of ordinary shares issuable under the Old Scheme was 341,000,000 (2001: 341,000,000), which represented approximately 7% (2001: 7%) of the Company's ordinary shares in issue as at the balance sheet date.

The offer of a grant of share options under the Old Scheme was accepted within 21 business days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted was determined by the directors, and commenced after a vesting period and ended on a date which was not later than 10 years after the adoption of the Old Scheme.

The exercise price of the share options granted under the Old Scheme was determined by the directors, but will not be less than the higher of (i) the nominal value of the Company's ordinary shares; or (ii) 80% of the average closing price of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of the offer of the grant.

The Old Scheme was terminated on 18 June 2002 after a new share option scheme became effective.

Notes to the Financial Statements

31 December 2002

27. SHARE OPTION SCHEMES (Continued)

Share option scheme arrangement before 18 June 2002 (Continued)

Details of the share options granted under the Old Scheme and remained outstanding during the year are as follows:

Name or category of participants	Number of share options at beginning of year and at 31 December 2002	Date of grant * of share options	Exercise period of share options	Exercise price of share ** options HK\$
Executive directors:				
Mr. Ng Hung Sang, Robert	50,000,000	15 August 1993	15 August 1994 to 11 July 2003	0.386
	30,000,000	15 August 1993	15 August 1995 to 11 July 2003	0.351
	20,000,000	15 August 1993	15 August 1996 to 11 July 2003	0.319
Mr. Richard Howard Gorges	25,000,000	15 August 1993	15 August 1994 to 11 July 2003	0.386
	15,000,000	15 August 1993	15 August 1995 to 11 July 2003	0.351
	10,000,000	15 August 1993	15 August 1996 to 11 July 2003	0.319
Ms. Cheung Choi Ngor, Christina	50,000,000	15 August 1993	15 August 1994 to 11 July 2003	0.386
	30,000,000	15 August 1993	15 August 1995 to 11 July 2003	0.351
	20,000,000	15 August 1993	15 August 1996 to 11 July 2003	0.319
Mr. Ng Chun Sang	10,000,000	15 March 2000	15 March 2001 to 11 July 2003	0.262
	6,000,000	15 March 2000	15 March 2002 to 11 July 2003	0.238
	4,000,000	15 March 2000	15 March 2003 to 11 July 2003	0.238
Mr. Shing Shin Cheung, Stewart	10,000,000	10 May 2001	10 May 2002 to 11 July 2003	0.138
	6,000,000	10 May 2001	10 May 2003 to 11 July 2003	0.138
	4,000,000	10 May 2001	***	0.138
	<u>290,000,000</u>			

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27. SHARE OPTION SCHEMES (Continued)

Share option scheme arrangement before 18 June 2002 (Continued)

Name or category of participants	Number of share options at beginning of year and at 31 December 2002	Date of grant * of share options	Exercise period of share options	Exercise price of share ** options HK\$
Other employees, in aggregate	7,500,000	15 March 2000	15 March 2001 to 11 July 2003	0.262
	4,500,000	15 March 2000	15 March 2002 to 11 July 2003	0.238
	3,000,000	15 March 2000	15 March 2003 to 11 July 2003	0.238
	8,000,000	7 June 2001	7 June 2002 to 11 July 2003	0.168
	4,800,000	7 June 2001	7 June 2003 to 11 July 2003	0.168
	3,200,000	7 June 2001	***	0.168
	10,000,000	9 July 2001	9 July 2002 to 11 July 2003	0.18
	6,000,000	9 July 2001	9 July 2003 to 11 July 2003	0.18
	4,000,000	9 July 2001	***	0.18
		<u>51,000,000</u>		
	<u>341,000,000</u>			

* The vesting period of share options is from the date of the grant until the commencement of the exercise period.

** The exercise price of share options is subject to a 10% annual price adjustment and adjustments in the case of rights or bonus issues, or other similar changes in the Company's share capital.

*** The exercise period of these share options falls behind the expiry of the Old Scheme and an approval from the directors is required for the exercise of these share options.

Notes to the Financial Statements

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27. SHARE OPTION SCHEMES (Continued)

Share option scheme arrangement before 18 June 2002 (Continued)

At the balance sheet date, the Company had 341,000,000 outstanding share options under the Old Scheme. The exercise in full of these share options would, under the present capital structure of the Company, result in the issue of 341,000,000 additional ordinary shares of the Company and additional share capital of HK\$8,525,000 and share premium of HK\$99,775,000, before issue expenses.

Share option scheme arrangement on or after 18 June 2002

The Company adopted a new share option scheme (the "New Scheme"), which became effective on 18 June 2002 and replaced the Old Scheme, for the purpose of (i) providing incentives and rewards to eligible participants who contribute to the success of the Group's operations; and (ii) attracting and retaining employees of appropriate qualifications and experience to work for the Group. Eligible participants of the New Scheme include the Company's directors (including executive, non-executive and independent non-executive directors), employees, customers, suppliers of goods or services, business partners and minority shareholders of the Company's subsidiaries. The New Scheme will remain in force for a period of 10 years from the date of adoption.

The maximum number of unexercised share options currently permitted to be granted under the New Scheme is an amount equivalent, upon their exercise, to 10% of the ordinary shares of the Company in issue at any time. The maximum number of ordinary shares issuable to each eligible participant under the New Scheme within any 12-month period is limited to 1% of the ordinary shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting. During the year, no share options were granted under the New Scheme.

The offer of a grant of share options under the New Scheme may be accepted within 5 business days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and is not later than 10 years from the date of the offer of the share options or the expiry of the New Scheme, whichever is earlier.

The exercise price of the share options granted under the New Scheme is determinable by the directors, but will not be less than the higher of (i) the nominal value of Company's ordinary shares; (ii) the closing price of the Company's shares on the Stock Exchange on the date of the offer of the grant; or (iii) the average closing price of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of the offer of the grant.

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28. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 22 to 23 of the financial statements.

(b) Company

	Share premium account HK\$'000	Warrant subscription reserve HK\$'000	Capital redemption reserve HK\$'000	Retained profits/ losses) HK\$'000	Total HK\$'000
At 1 January 2001	201,285	63,050	1,483	4,640	270,458
Premium on issue of new shares	359	—	—	—	359
Realisation of warrant subscription reserve	—	(63,050)	—	—	(63,050)
Write-off of premium paid on repurchase of shares	—	—	—	(464)	(464)
Transfer from retained profits on cancellation of repurchased shares	—	—	100	(100)	—
Net profit for the year	—	—	—	33,144	33,144
Interim dividend (<i>note 12</i>)	—	—	—	(20,682)	(20,682)
Proposed final dividend (<i>note 12</i>)	—	—	—	(4,862)	(4,862)
At 31 December 2001 and at 1 January 2002	201,644	—	1,583	11,676	214,903
Premium on issue of new shares	30	—	—	—	30
Write-off of premium paid on repurchase of shares	—	—	—	(68)	(68)
Transfer from retained profits on cancellation of repurchased shares	—	—	18	(18)	—
Net loss for the year	—	—	—	(123,923)	(123,923)
At 31 December 2002	201,674	—	1,601	(112,333)	90,942

Notes to the Financial Statements

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29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) *Reclassifications*

SSAP 15 (Revised) was adopted during the current year, as detailed in note 2 to the financial statements, which has resulted in a change to the layout of the consolidated cash flow statement. The consolidated cash flow statement is now presented under three headings: cash flows from operating activities, investing activities and financing activities. Previously five headings were used, comprising the three headings listed above, together with cash flows from returns on investments and servicing of finance and from taxes paid. The significant reclassifications resulting from the change in presentation are that interests received, interest paid and taxes paid are now included in cash flows from operating activities, and dividends paid are now included in cash flows from financing activities. The presentation of the 2001 comparative consolidated cash flow statement has been changed to accord with the new layout.

(b) *Major non-cash transactions*

During the year, the Group entered into a finance lease arrangement in respect of fixed assets with a capital value at the inception of the lease of HK\$978,000 (2001: Nil).

30. PLEDGE OF ASSETS

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

- (a) a time deposit of HK\$1,500,000 (2001: HK\$1,500,000); and
- (b) an investment property with a market value of HK\$78,000,000 (2001: leasehold land and building with a net book value of HK\$96,833,000).

In addition, listed equity investments belonging to the Group, fellow subsidiaries and clients with a total market value of approximately HK\$318,148,000 (2001: HK\$447,753,000) were pledged to banks to secure banking facilities granted to a subsidiary of the Company at the balance sheet date.

Except for the above, the Company did not have any material assets pledged to other independent third parties at 31 December 2002 (2001: Nil).

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31. CONTINGENT LIABILITIES

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

	GROUP		COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	—	—	853,900	875,370
Guarantees given to banks in connection with letters of guarantee issued by banks	5,500	5,500	5,500	5,500
	5,500	5,500	859,400	880,870

In addition, the Company had guarantees given to financial institutions for commodities and bullion trading facilities granted to two subsidiaries of approximately HK\$11,970,000 (2001: HK\$11,970,000) which remained unutilised at 31 December 2002 (2001: Nil).

32. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment property (note 15) to independent third parties under operating lease arrangements, with the leases negotiated for a term of three years.

At the balance sheet date, the Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	GROUP	
	2002 HK\$'000	2001 HK\$'000
Within one year	1,927	—
In the second to fifth years, inclusive	2,473	—
	4,400	—

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32. OPERATING LEASE ARRANGEMENTS (Continued)

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements, with leases negotiated for terms ranging from two to three years.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	GROUP	
	2002 HK\$'000	2001 HK\$'000
Within one year	10,658	8,754
In the second to fifth years, inclusive	11,997	2,276
	22,655	11,030

At 31 December 2002, the Company did not enter into any arrangement under non-cancellable operating leases (2001: Nil).

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33. RELATED PARTY TRANSACTIONS

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

	Notes	2002 HK\$'000	2001 HK\$'000
Consulting and servicing fees paid to fellow subsidiaries	(a)	11,856	6,000
Commission and brokerage income received from:	(b)		
Fellow subsidiaries		62	86
Directors and related parties		215	225
Interest income received from:			
Intermediate holding company	(c)	3,910	5,827
Fellow subsidiaries	(d)	624	1,258
Directors and related parties	(d)	276	39
Rental expenses paid to fellow subsidiaries	(e)	598	—
Corporate advisory fees and underwriting commission received from fellow subsidiaries	(f)	1,275	300

Notes:

- (a) Consulting and servicing fees relate to the advisory and management services provided by fellow subsidiaries for e-commerce consultation on feasibility's studies, infrastructure planning, core engine specification, security specification, building up of internet platform and continuing maintenance; marketing and promotional services provided for image design, colour separation, type setting, printing, publishing, and all necessary marketing and promotional arrangements through different media channels. These fees were calculated based on terms mutually agreed by the contracting parties.
- (b) Commission and brokerage income relates to the Group's securities broking business and was calculated by reference to commission and brokerage charged to third party clients.
- (c) Interest income relates to cash advances to Tek Lee Finance and Investment Corporation Limited, details of which are set out in note 22 to the financial statements.
- (d) Interest income relates to the Group's margin financing business and was calculated at 4% (2001: 4%) over the Hong Kong Prime Rate.
- (e) Rental expenses relate to the leasing of certain office premises from fellow subsidiaries and was calculated by reference to market rentals.
- (f) The corporate advisory fees and underwriting commission income relate to the Group's corporate advisory and share underwriting business and were calculated by reference to rates charged to third party clients.

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34. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 April 2003.