

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

1. GROUP REORGANISATION AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

The Company was incorporated in Bermuda on 8th August, 1997 as an exempted company under the Companies Act 1981 of Bermuda (as amended) and its shares were listed on The Stock Exchange of Hong Kong Limited (the "SEHK") with effect from 28th September, 2000.

Under a group reorganisation scheme (the "Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on the SEHK, the Company became the holding company of the Group in Hong Kong on 15th August, 2000.

The principal steps of the Reorganisation, which involved the exchange of shares, were as follows:

- (a) OSK Asia Holdings Limited ("OAH") transferred 1,000,000 shares of the Company at a cash consideration of HK\$100,000 to the then shareholders of OAH pro-rated to their then shareholdings in OAH.
- (b) The Company acquired the entire issued share capital of OAH from the then shareholders of OAH and as consideration for the acquisition, the Company allotted and issued an aggregate of 474,000,000 shares, credited as fully paid, to the then shareholders of OAH on a pro-rata basis.

The Group resulting from the Reorganisation is regarded as a continuing entity as described in the Statement of Standard Accounting Practice ("SSAP") No. 27 "Accounting for Group Reconstructions" issued by the Hong Kong Society of Accountants. Accordingly, the financial statements of the Group for the year ended 31st December, 2000 have been prepared on a merger basis.

The Company is an investment holding company. Its subsidiaries are principally engaged in the provision of financial services including broking, securities margin financing, investment trading and holding, corporate finance and asset management.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted for the first time a number of new and revised SSAPs issued by the Hong Kong Society of Accountants. The adoption of these SSAPs has led to a number of changes in the Group's accounting policies. The revised accounting policies are set out in note 3. In addition, the new and revised SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts for the prior year have been restated in order to achieve a consistent presentation.

The adoption of these new and revised SSAPs has resulted in the following change to the Group's accounting policies that have affected the amounts reported for the current or prior periods.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE (continued)

Dividend proposed or declared after the balance sheet date

In accordance with SSAP 9 (Revised) "Events after the Balance Sheet Date", dividends proposed or declared after the balance sheet date are not recognised as a liability at the balance sheet date, but are disclosed as a separate component of equity in the notes to the financial statements. This change in accounting policy has been applied retrospectively, resulting in a prior year adjustment on derecognition of the liability for special final dividend for Year 2000 amounting to HK\$9,000,000. The effect of this change has been to increase the reserves at 31st December, 2000 by HK\$9,000,000 and the shareholders' funds at that date from HK\$305,541,491 to HK\$314,541,491.

Leases

Disclosures for all of the Group's leasing arrangements have been modified so as to comply with the requirements of SSAP 14 (Revised) "Leases". Comparative amounts have been restated in order to achieve a consistent presentation.

Segment reporting

In the current year, the Group has changed the basis of identification of reportable segments to that required by SSAP 26 "Segment Reporting". Segment disclosures for the year ended 31st December, 2000 have been amended so that they are presented on a consistent basis.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investments 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 results of the Company and its subsidiaries made up to 31st December every year on the basis described in note 1.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Commission income, handling fee income and asset management and advisory fees are recognised when the service is rendered, the amount can be reliably estimated and it is probable that it will be received.

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

Realised gains and losses on disposal of investments in securities are dealt with through the income statement on a trade date basis when a sales contract is entered into.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold improvements	20% - 50%
Furniture and fixtures	25%
Office equipment	25%
Motor vehicles	25%

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

Intangible assets

Intangible assets represent trading rights in the SEHK and Hong Kong Futures Exchange Limited (the "HKFE") which are stated at amortised cost. Cost is amortised on a straight-line basis over a period of 10 years.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in securities

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

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. Any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

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.

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

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as revaluation decrease under that SSAP.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that SSAP.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 recognised in the financial statements. The tax effect of timing differences, computed under the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in foreign 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.

Retirement benefits scheme

The retirement benefit costs charged in the income statement represent the contribution payable in respect of the current year to the Group's Mandatory Provident Fund Scheme.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the relevant lease terms.

4. TURNOVER

	2001 HK\$	2000 HK\$
Commission income and handling fee income	40,288,892	84,634,873
Interest income from:		
— banks	7,098,756	10,066,067
— investments in securities	—	121,166
— margin clients	11,369,936	21,930,938
Asset management and advisory fees	564,865	484,899
	<u>59,322,449</u>	<u>117,237,943</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

5. STAFF COSTS

	2001 HK\$	2000 HK\$
Directors' remuneration (Note 12)		
— fees	260,000	160,000
— other emoluments	6,197,704	6,026,302
Salaries and allowances	32,554,845	30,813,085
Provident fund contributions	1,153,990	718,793
	<u>40,166,539</u>	<u>37,718,180</u>

In addition to the above, commission expenses paid to the staff for securities and futures dealing amounting to approximately HK\$6.6 million (2000: HK\$17.6 million) are included in commission expenses as disclosed in the income statement on page 21.

6. (LOSS) PROFIT FROM OPERATIONS

	2001 HK\$	2000 HK\$
(Loss) profit from operations has been arrived at after charging:		
Auditors' remuneration	520,000	550,000
Loss on disposal of property and equipment	—	334,215
Amortisation of trading rights	232,574	83,061
Operating lease rentals in respect of office premises and staff quarters	<u>5,513,652</u>	<u>8,467,933</u>

7. FINANCE COSTS

	2001 HK\$	2000 HK\$
Interest on:		
Bank loans and overdrafts wholly repayable within five years	29,836	1,247,066
Clients payable with no fixed repayment terms	1,447,212	4,583,010
	<u>1,477,048</u>	<u>5,830,076</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

8. TAXATION

	2001 HK\$	2000 HK\$
The charge (credit) comprises:		
Hong Kong Profits Tax		
— provision for the year	550	2,704,582
— overprovision in previous years	(423)	—
	<u>127</u>	<u>2,704,582</u>

Hong Kong Profits Tax is calculated at 16% (2000: 16%) of the estimated assessable profits for the year.

Details of the potential deferred taxation not recognised for the year are set out in note 27.

9. NET (LOSS) PROFIT FOR THE YEAR

Of the Group's net loss for the year of approximately HK\$46,746,000 (2000: profit of HK\$30,668,000), a loss of approximately HK\$58,907,000 (2000: loss of HK\$235,000) has been dealt with in the financial statements of the Company.

10. DIVIDENDS

	2001 HK\$	2000 HK\$
Interim dividend paid, Nil (2000: HK\$0.025 per share)	—	15,000,000
Special final dividend proposed, Nil (2000: HK\$0.015 per share)	—	9,000,000
	<u>—</u>	<u>24,000,000</u>

11. BASIC (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share is based on net loss for the year of HK\$46,746,459 (2000: profit of HK\$30,668,410) and the weighted average of 600,000,000 (2000: 507,445,355) shares in issue during the year.

No diluted loss per share has been presented because the effect of exercising all the outstanding share options is anti-dilutive.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

12. EMOLUMENTS OF DIRECTORS AND SENIOR EXECUTIVES

(a) Details of emoluments paid to the Directors of the Company are as follows:

	2001	2000
	HK\$	HK\$
Fees for Executive Directors	<u>—</u>	<u>—</u>
Fees for Non-executive Directors	<u>260,000</u>	<u>160,000</u>
Other emoluments for Executive Directors		
— basic salaries and allowances	4,793,000	4,710,000
— discretionary bonuses	574,000	530,000
— others	593,704	552,302
— provident fund contributions	<u>237,000</u>	<u>234,000</u>
	<u>6,197,704</u>	<u>6,026,302</u>
	<u>6,457,704</u>	<u>6,186,302</u>
Number of Executive Directors	<u>3</u>	<u>3</u>
Number of Non-executive Directors	<u>5</u>	<u>5</u>
	<u>8</u>	<u>8</u>

The amounts disclosed above include Directors' fees of HK\$200,000 (2000: HK\$100,000) payable to Independent Non-executive Directors.

No Directors waived any emolument and no emoluments were paid to the Directors as inducement to join or upon joining the Group or as compensation for loss of office during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

12. EMOLUMENTS OF DIRECTORS AND SENIOR EXECUTIVES (continued)

(b) The emoluments of the Directors by number of individuals are within the following bands:

	2001	2000
	No. of directors	
HK\$Nil — HK\$1,000,000	5	5
HK\$1,000,001 — HK\$1,500,000	1	1
HK\$2,000,001 — HK\$2,500,000	2	1
HK\$2,500,001 — HK\$3,000,000	—	1
	<u>8</u>	<u>8</u>

(c) Of the five individuals with the highest emoluments in the Group, three (2000: three) were Directors of the Company whose emoluments are included in the disclosures in notes 12(a) and (b) above. The emoluments of the remaining two (2000: two) individuals were as follows:

	2001	2000
	HK\$	
Basic salaries and allowances	2,857,869	2,554,500
Discretionary bonuses	201,540	98,250
Provident fund contributions	24,800	117,900
	<u>3,084,209</u>	<u>2,770,650</u>

The emoluments of these remaining two highest paid employees are within the following bands:

	2001	2000
	No. of employees	
HK\$1,000,001 — HK\$1,500,000	1	2
HK\$1,500,001 — HK\$2,000,000	1	—
	<u>2</u>	<u>2</u>

NOTES TO THE FINANCIAL STATEMENTS

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13. PROPERTY AND EQUIPMENT

	Leasehold improvements <i>HK\$</i>	Furniture and fixtures <i>HK\$</i>	Office equipment <i>HK\$</i>	Motor vehicles <i>HK\$</i>	Total <i>HK\$</i>
THE GROUP					
COST					
At 1st January, 2001	7,151,600	1,094,253	11,089,892	738,554	20,074,299
Additions	<u>1,408,142</u>	<u>48,602</u>	<u>1,048,913</u>	<u>—</u>	<u>2,505,657</u>
At 31st December, 2001	<u>8,559,742</u>	<u>1,142,855</u>	<u>12,138,805</u>	<u>738,554</u>	<u>22,579,956</u>
DEPRECIATION					
At 1st January, 2001	957,903	240,715	5,459,141	615,461	7,273,220
Provided for the year	<u>1,512,549</u>	<u>276,344</u>	<u>2,158,044</u>	<u>123,093</u>	<u>4,070,030</u>
At 31st December, 2001	<u>2,470,452</u>	<u>517,059</u>	<u>7,617,185</u>	<u>738,554</u>	<u>11,343,250</u>
NET BOOK VALUES					
At 31st December, 2001	<u>6,089,290</u>	<u>625,796</u>	<u>4,521,620</u>	<u>—</u>	<u>11,236,706</u>
At 31st December, 2000	<u>6,193,697</u>	<u>853,538</u>	<u>5,630,751</u>	<u>123,093</u>	<u>12,801,079</u>

14. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2001	2000
	<i>HK\$</i>	<i>HK\$</i>
Unlisted shares, at cost	286,338,109	286,338,109
Impairment loss	<u>(58,000,000)</u>	<u>—</u>
	<u>228,338,109</u>	<u>286,338,109</u>

The cost of the unlisted shares is determined based on the carrying value of the underlying net assets of OAH and its subsidiaries at the time they became members of the Group pursuant to the Reorganisation described in note 1. During the year, an impairment loss of HK\$58 million has been recognised in respect of the investments in subsidiaries to restate the carrying value of the investments to the estimated recoverable amounts of the underlying assets of the subsidiaries with reference to the net realisable value or value in use where applicable at the balance sheet date.

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14. INVESTMENTS IN SUBSIDIARIES (continued)

Details of the Company's subsidiaries as at 31st December, 2001 are as follows:

Name of subsidiary	Place of incorporation	Class of share held	Percentage of nominal value of issued share capital held by the Company		Principal activities
			Directly	Indirectly	
			%	%	
OSK Asia Holdings Limited	British Virgins Islands	Ordinary	100	—	Investment holding
OSK Asia Limited	Hong Kong	Ordinary	—	100	Investment holding
Ibrokers Company Limited	Hong Kong	Ordinary	—	100	Inactive
OSK Asia Asset Management Limited	Hong Kong	Ordinary	—	100	Provision of investment advisory and fund management services
OSK Asia Capital Limited	Hong Kong	Ordinary	—	100	Provision of corporate finance and advisory services
OSK Asia Corporate Services Limited	Hong Kong	Ordinary	—	100	Provision of corporate secretarial services
OSK Asia Finance Limited	Hong Kong	Ordinary	—	100	Money lending
OSK Asia Futures Limited	Hong Kong	Ordinary	—	100	Futures and commodities dealing
OSK Asia Management Limited	Hong Kong	Ordinary	—	100	Provision of management services
OSK Asia Nominee Limited	Hong Kong	Ordinary	—	100	Provision of nominee services
OSK Asia Realty Limited	Hong Kong	Ordinary	—	100	Investment holding
OSK Asia Research Limited	Hong Kong	Ordinary	—	100	Provision of research services
OSK Asia Securities Limited	Hong Kong	Ordinary	—	100	Securities dealing and margin financing
Betamax International Limited	Hong Kong	Ordinary	—	100	Investment holding
OSK Asia Online Limited (Formerly know as oskasia.com Limited)	Hong Kong	Ordinary	—	100	Provision of online trading and information services
OSK Alternative Investment Fund Limited	British Virgins Islands	Ordinary	—	100	Not yet commenced business

14. INVESTMENTS IN SUBSIDIARIES (continued)

The Company's subsidiaries listed above principally operate in Hong Kong. OSK Alternative Investment Fund Limited was newly established during the year.

None of the subsidiaries had any loan capital outstanding at the end of the year or at any time during the year.

15. INTANGIBLE ASSETS

	Three trading rights in the SEHK HK\$	One trading right in the HKFE HK\$	Total HK\$
THE GROUP			
COST			
At 1st January, 2001	842,800	149,600	992,400
Addition	3,200,000	—	3,200,000
	<u>4,042,800</u>	<u>149,600</u>	<u>4,192,400</u>
At 31st December, 2001			
AMORTISATION			
At 1st January, 2001	70,594	12,467	83,061
Provided for the year	217,614	14,960	232,574
	<u>288,208</u>	<u>27,427</u>	<u>315,635</u>
At 31st December, 2001			
NET BOOK VALUES			
At 31st December, 2001	<u>3,754,592</u>	<u>122,173</u>	<u>3,876,765</u>
At 31st December, 2000	<u>772,206</u>	<u>137,133</u>	<u>909,339</u>

During the year, the Group purchased one trading right from another SEHK participant.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

16. INVESTMENTS IN SECURITIES

	THE GROUP	
	2001	2000
	HK\$	HK\$
Non-current:		
Investment securities, at cost less impairment loss		
Overseas listed investments (<i>Note</i>)	4,099,689	31,232,470
Unlisted investments	50,000	50,000
	<u>4,149,689</u>	<u>31,282,470</u>
Market value of listed securities	<u>3,971,574</u>	<u>7,731,630</u>
Current:		
Other investments, at fair value		
Listed securities in Hong Kong	20,902,550	4,626,882
Unlisted overseas unit trust	19,480,494	18,736,312
Unlisted unit trusts in Hong Kong	1,415,402	1,953,961
	<u>41,798,446</u>	<u>25,317,155</u>
Market value of listed securities in Hong Kong	<u>20,902,550</u>	<u>4,626,882</u>

Note:

The overseas listed investments represent an approximately 7.48% (2000: 9.02%) interest in I.T.&e Limited ("IT&e"), a listed company in Australia, which is principally engaged in the provision of services in the information technology and e-commerce industries. The Directors of the Company consider that the investment in IT&e is held for a long-term strategic purpose.

During the year, an impairment loss of approximately HK\$27 million has been recognised in the investment to restate the carrying value of the investment to its estimated recoverable amount, with reference to the price of a recent placement of new shares issued by IT&e.

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17. STATUTORY DEPOSITS

	THE GROUP	
	2001	2000
	HK\$	HK\$
Hong Kong Securities Clearing Company Limited		
— guarantee fund deposit	150,000	140,000
— admission fee	150,000	100,000
The SEHK		
— compensation fund	150,000	100,000
— fidelity fund	150,000	100,000
— system access deposit for stock options	—	200,000
— teletext deposit	2,400	2,400
— stamp duty deposit	150,000	250,000
The SEHK Options Clearing House Limited		
— reserve fund initial contribution	1,500,000	1,500,000
HKFE Clearing Corporation Limited		
— reserve fund deposit	1,500,000	1,500,000
The HKFE		
— compensation fund deposit	100,000	100,000
	<u>3,852,400</u>	<u>3,992,400</u>

18. TRADE RECEIVABLES

	THE GROUP	
	2001	2000
	HK\$	HK\$
Margin client receivables, net	106,600,856	146,820,412
Other client receivables	4,688,315	9,394,925
Broker receivables	4,076,088	1,682,452
Amounts due from clearing houses	10,808,790	20,548,528
	<u>126,174,049</u>	<u>178,446,317</u>

Margin client receivables are repayable on demand, bear interest at prevailing market rates and are secured by clients' securities listed on the SEHK with a market value of approximately HK\$326 million as at 31st December, 2001 (2000: HK\$474 million). No aged analysis is disclosed for margin client receivables as in the opinion of the Directors, the aged analysis does not give additional value in view of the nature of business of share margin financing.

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18. TRADE RECEIVABLES (continued)

The settlement terms of other client receivables and amounts due from clearing houses are one or two days after the trade date. The age of these balances is within 30 days.

Included in the above client receivables as at 31st December, 2001 are the accounts of the shareholders, the Directors and their associates of approximately HK\$6,697,000 (2000: HK\$1,766,000). The amounts due from the Directors are of similar credit and trading terms as the other clients.

19. BANK BALANCES AND CASH

	THE GROUP		THE COMPANY	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Bank balances				
— general accounts	89,579,611	110,780,677	14,311	60,757
— trust and segregated accounts	94,017,536	66,434,985	—	—
Cash in hand	50,000	50,000	—	—
	<u>183,647,147</u>	<u>177,265,662</u>	<u>14,311</u>	<u>60,757</u>

20. TRADE PAYABLES

	THE GROUP	
	2001 HK\$	2000 HK\$
Margin client payables	57,548,334	62,635,584
Other client payables	54,725,320	47,595,226
Broker payables	638,876	—
Amount due to a clearing house	6,916,839	—
	<u>119,829,369</u>	<u>110,230,810</u>

Margin client payables are repayable on demand and bear interest at prevailing market rates. No ageing analysis is disclosed for margin client payables as in the opinion of the Directors, the ageing analysis does not give additional value in view of the nature of business of share margin financing.

The settlement term of other client payables is two days after the trade date. The age of these balances is within 30 days.

Included in the above client payables as at 31st December, 2001 are the accounts of the parent company in Malaysia, other shareholders, the Directors and their associates of approximately HK\$4,731,000 (2000: HK\$5,680,000).

21. AMOUNT DUE TO PARENT COMPANY IN MALAYSIA

The amount due to parent company as at 31st December, 2000 was unsecured, interest-free and was fully repaid during the year of 2001.

22. SHARE CAPITAL

	Number of shares		Share capital	
	2001	2000	2001 HK\$	2000 HK\$
Ordinary shares of HK\$0.1 each				
Authorised:				
At the beginning of the year	2,000,000,000	1,000,000	200,000,000	100,000
Increase during the year	—	1,999,000,000	—	199,900,000
At the end of the year	<u>2,000,000,000</u>	<u>2,000,000,000</u>	<u>200,000,000</u>	<u>200,000,000</u>
Issued and fully paid:				
At the beginning of the year	600,000,000	1,000,000	60,000,000	100,000
— issued on 15th August, 2000	—	474,000,000	—	47,400,000
— issued on 28th September, 2000	—	125,000,000	—	12,500,000
At the end of the year	<u>600,000,000</u>	<u>600,000,000</u>	<u>60,000,000</u>	<u>60,000,000</u>

23. SHARE OPTION SCHEME

In accordance with the Company's share option scheme (the "Scheme") which became effective on 15th August, 2000, the Board of Directors of the Company may grant options to Executive Directors and employees of the Group to subscribe for shares in the Company at a price equal to the higher of the nominal value of the shares or 80% of the average of the closing prices of the shares on the SEHK on the five trading days immediately preceding the date of the grant of the options, subject to a maximum of 10% of the issued share capital of the Company from time to time.

At 31st December, 2001, the number of shares in respect of which options had been granted under the Scheme was 30,000,000 (2000: 31,875,000), representing 5.0% (5.3%) of the shares of the Company in issue at that date. The details of the share options are set out as follows:

Exercisable period	Exercise price	Number of share options
15th August, 2000 - 31st May, 2002	0.48	15,000,000
15th August, 2000 - 31st December, 2002	0.50	15,000,000
		<u>30,000,000</u>

No options were granted or exercised during the year.

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24. RESERVES

	Share premium HK\$	Capital reserve HK\$	Dividend reserve HK\$	Retained profits HK\$	Special reserve HK\$	Total HK\$
THE GROUP						
As at 1st January, 2000	—	22,282	—	43,617,976	198,880,856	242,521,114
Premium arising from issue of new shares	56,250,000	—	—	—	—	56,250,000
Expenses on issue of new shares	(12,598,033)	—	—	—	—	(12,598,033)
Effect of the Reorganisation	—	—	—	—	(47,300,000)	(47,300,000)
Net profit for the year	—	—	—	30,668,410	—	30,668,410
Dividends (note 10)	—	—	—	—	(24,000,000)	(24,000,000)
As at 31st December, 2000						
— as originally stated	43,651,967	22,282	—	74,286,386	127,580,856	245,541,491
— prior year adjustment (note 2)	—	—	9,000,000	—	—	9,000,000
— as restated	43,651,967	22,282	9,000,000	74,286,386	127,580,856	254,541,491
Net loss for the year	—	—	—	(46,746,459)	—	(46,746,459)
Dividend paid	—	—	(9,000,000)	—	—	(9,000,000)
As at 31st December, 2001	<u>43,651,967</u>	<u>22,282</u>	<u>—</u>	<u>27,539,927</u>	<u>127,580,856</u>	<u>198,795,032</u>
	Share premium HK\$	Accumulated losses HK\$	Dividend reserve HK\$	Contributed surplus HK\$		Total HK\$
THE COMPANY						
As at 1st January, 2000	—	(131,525)	—	—	—	(131,525)
Surplus arising from the Reorganisation	—	—	—	238,938,109	—	238,938,109
Premium arising from issue of new shares	56,250,000	—	—	—	—	56,250,000
Expenses on issue of new shares	(12,598,033)	—	—	—	—	(12,598,033)
Loss for the year	—	(234,516)	—	—	—	(234,516)
Dividends (note 10)	—	—	—	(24,000,000)	—	(24,000,000)
As at 31st December, 2000						
— as originally stated	43,651,967	(366,041)	—	214,938,109	—	258,224,035
— prior year adjustment (note 2)	—	—	9,000,000	—	—	9,000,000
— as restated	43,651,967	(366,041)	9,000,000	214,938,109	—	267,224,035
Loss for the year	—	(58,907,339)	—	—	—	(58,907,339)
Dividend paid	—	—	(9,000,000)	—	—	(9,000,000)
As at 31st December, 2001	<u>43,651,967</u>	<u>(59,273,380)</u>	<u>—</u>	<u>214,938,109</u>	<u>—</u>	<u>199,316,696</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

24. RESERVES (continued)

The special reserve of the Group as at 31st December, 2001 represents the difference between the nominal amount of the shares of the subsidiaries at the date on which they were acquired by the Group and the nominal amount of the shares issued for the acquisition, less dividend for the year.

The contributed surplus of the Company as at 31st December, 2001 represents the difference between the consolidated net assets of OAH at the date when its shares were acquired by the Company, and the nominal amount of the Company's shares issued for the acquisition, less dividend for the year.

25. RECONCILIATION OF (LOSS) PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	THE GROUP	
	2001 HK\$	2000 HK\$
(Loss) profit before taxation	(46,746,332)	33,372,992
Interest expenses	1,477,048	5,830,076
Depreciation	4,070,030	3,240,950
Amortisation of trading rights	232,574	83,061
Loss on disposal of property and equipment	—	334,215
Impairment losses recognised in respect of investment securities	27,132,781	—
Unrealised loss on revaluation of other investments	16,067	11,593,152
Realised gain on disposal of shares in HKEC	—	(26,691,262)
Realised gain on disposal of other investments and futures trading	(280,463)	(5,750,236)
Decrease (increase) in statutory deposits	140,000	(15,000)
Decrease (increase) in trade receivables	52,272,268	(22,412,625)
Decrease in other debtors, deposits and prepayments	199,726	41,942,294
Increase in bank trust and segregated accounts	(27,582,551)	(6,130,879)
Increase (decrease) in trade payables	9,598,559	(34,615,453)
Decrease in other payable and accrued charges	(873,461)	(523,891)
Net cash inflow from operating activities	<u>19,656,246</u>	<u>257,394</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

26. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and share premium	
	2001 HK\$	2000 HK\$
Balance at 1st January	103,651,967	100,000
Proceeds from issue of new shares	—	68,750,000
Expenses on issue of new shares	—	(12,598,033)
Issue of share capital to acquire OAH	—	47,400,000
	<hr/>	<hr/>
Balance at 31st December	<u>103,651,967</u>	<u>103,651,967</u>

27. POTENTIAL DEFERRED TAXATION

A deferred tax asset has not been recognised in the financial statements as it is not certain that the net deferred tax asset will be realised in the foreseeable future.

Details of net deferred tax asset not recognised at the balance sheet date are as follows:

	THE GROUP	
	2001 HK\$	2000 HK\$
Tax effect of timing difference because of:		
Estimated tax losses	11,082,939	7,244,349
Excess of tax allowances over depreciation	(582,040)	(967,003)
Other timing differences	1,466,207	226,516
	<hr/>	<hr/>
	<u>11,967,106</u>	<u>6,503,862</u>

The amount of potential deferred taxation credit (charge) for the year is as follows:

	THE GROUP	
	2001 HK\$	2000 HK\$
Tax effect of timing differences because of:		
Tax losses arising	3,838,590	2,206,017
Difference between tax allowances and depreciation	384,963	(404,853)
Other timing differences	1,239,691	50,505
	<hr/>	<hr/>
	<u>5,463,244</u>	<u>1,851,669</u>

THE COMPANY

The Company did not have any significant unprovided deferred taxation at the balance sheet date.

28. CONTINGENT LIABILITIES

THE GROUP

At 31st December, 2001, the Group has no significant contingent liabilities.

THE COMPANY

The Company has issued an unlimited corporate guarantee to a bank in respect of general facilities granted to a subsidiary. The Company has also issued guarantees amounting to HK\$45,000,000 (2000: HK\$30,000,000) to other banks in respect of general facilities granted to that subsidiary. The subsidiary did not utilise any of the facilities as at 31st December, 2001 (2000: Nil).

29. OPERATING LEASE COMMITMENTS

At 31st December, 2001, the Group had total commitments for minimum lease payment under non-cancellable operating leases in respect of rented premises which fall due as follows:

	THE GROUP	
	2001	2000
	HK\$	HK\$
Within one year	6,172,432	5,487,850
In the second to fifth year inclusive	20,935,668	22,805,500
Over five years	—	2,134,800
	<u>27,108,100</u>	<u>30,428,150</u>

THE COMPANY

At 31st December, 2001, the Company had no commitments under non-cancellable operating leases.

30. PLEDGE OF ASSETS

The Group has pledged its time deposit of HK\$1,930,215 (2000: HK\$1,930,215) to secure a bank guarantee granted to a subsidiary for the purpose of renting the office premises.

31. CAPITAL COMMITMENTS

THE GROUP AND THE COMPANY

At 31st December, 2001, the Group and the Company had no capital commitments.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

32. RELATED PARTY TRANSACTIONS

Particulars of significant transactions between the Group and fellow subsidiaries in Malaysia during the year were as summarised below:

	2001	2000
	HK\$	HK\$
Handling fee received	<u>—</u>	<u>512,160</u>
Commission paid, net	<u>97,753</u>	<u>248,404</u>

In the ordinary course of business, the clients of OSK Asia Securities Limited and OSK Asia Futures Limited place orders with the Group to trade in listed securities and futures contracts in Malaysia. Fellow subsidiaries in Malaysia execute the trades and charge the Group brokerage and futures broking commission at pre-agreed rates based on the minimum commission rates required in Malaysia. In return, the Group receives handling fees and commission for introducing trade orders to these fellow subsidiaries. The handling fee is dependent on the size of order and the volume of transactions generated and is pre-agreed between two parties. There was no handling fee received for the current year.

Furthermore, the Group entered into the following transactions with the parent company in Malaysia, certain other shareholders of the Company and certain Directors of the Group during the year. The commission, fee and the interest are charged at market rates. The transactions are related to futures and securities trading and margin accounts:

	2001	2000
	HK\$	HK\$
Commission, fee and interest income		
The parent company in Malaysia	32,155	—
Other shareholders	409,976	357,378
Directors	357,905	545,676
Interest paid		
The parent company in Malaysia	5,344	—
Other shareholders	2,335	79,653
Directors	<u>95,378</u>	<u>236,541</u>

In the opinion of Directors including the Independent Non-executive Directors, the above transactions are carried in the Group's ordinary course of business and on normal commercial terms.

33. BUSINESS AND GEOGRAPHICAL SEGMENTS

For management purposes, the Group is currently organised into four main operating divisions, namely broking, securities margin financing, investment trading and holding, corporate finance and asset management. These divisions are the basis on which the Group reports its primary segment information.

The principal activities of the divisions are as follows:

Broking	Provision of securities, options and futures broking
Securities margin financing	Provision of securities margin financing
Investment trading and holding	Investment trading and holding
Corporate finance and asset management	Provision of corporate finance and fund management services

INCOME STATEMENT FOR THE YEAR ENDED 31ST DECEMBER, 2001

	Broking	Securities margin financing	Investment trading and holding	Corporate finance and asset management	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
REVENUE					
Turnover	<u>40,140</u>	<u>11,370</u>	<u>7,099</u>	<u>713</u>	<u>59,322</u>
RESULTS					
Segment (loss) profit	<u>(28,725)</u>	<u>5,320</u>	<u>(19,035)</u>	<u>(2,341)</u>	(44,781)
Net unallocated expenses					<u>(1,965)</u>
Loss before taxation					(46,746)
Taxation charge					<u>—</u>
Loss for the year					<u>(46,746)</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

33. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

BALANCE SHEET AS AT 31ST DECEMBER, 2001

	Broking HK\$'000	Securities margin financing HK\$'000	Investment trading and holding HK\$'000	Corporate finance and asset management HK\$'000	Total HK\$'000
ASSETS					
Segment assets	<u>134,655</u>	<u>106,601</u>	<u>135,578</u>	<u>131</u>	376,965
Unallocated assets					<u>3,888</u>
					<u>380,853</u>
LIABILITIES					
Segment liabilities	<u>63,873</u>	<u>57,548</u>	<u>—</u>	<u>29</u>	121,450
Unallocated liabilities					<u>608</u>
					<u>122,058</u>

OTHER INFORMATION FOR THE YEAR ENDED 31ST DECEMBER, 2001

	Broking HK\$'000	Securities margin financing HK\$'000	Investment trading and holding HK\$'000	Corporate finance and asset management HK\$'000	Total HK\$'000
Additions of property and equipment	2,503	—	—	3	2,506
Depreciation and amortisation	4,288	—	—	15	4,303
Provision for doubtful debts	<u>1,287</u>	<u>1,341</u>	<u>—</u>	<u>—</u>	<u>2,628</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

33. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

INCOME STATEMENT FOR THE YEAR ENDED 31ST DECEMBER, 2000

	Broking <i>HK\$'000</i>	Securities margin financing <i>HK\$'000</i>	Investment trading and holding <i>HK\$'000</i>	Corporate finance and asset management <i>HK\$'000</i>	Total <i>HK\$'000</i>
REVENUE					
Turnover	<u>82,712</u>	<u>21,931</u>	<u>10,187</u>	<u>2,408</u>	<u>117,238</u>
RESULTS					
Segment (loss) profit	<u>(8,470)</u>	<u>12,316</u>	<u>31,054</u>	<u>(1,143)</u>	33,757
Net unallocated expenses					<u>(384)</u>
Profit before taxation					33,373
Taxation charge					<u>(2,705)</u>
Profit for the year					<u>30,668</u>

BALANCE SHEET AS AT 31ST DECEMBER, 2000

	Broking <i>HK\$'000</i>	Securities margin financing <i>HK\$'000</i>	Investment trading and holding <i>HK\$'000</i>	Corporate finance and asset management <i>HK\$'000</i>	Total <i>HK\$'000</i>
ASSETS					
Segment assets	<u>117,978</u>	<u>146,821</u>	<u>167,430</u>	<u>140</u>	432,369
Unallocated assets					<u>4,330</u>
					<u>436,699</u>
LIABILITIES					
Segment liabilities	<u>51,136</u>	<u>62,636</u>	<u>—</u>	<u>31</u>	113,803
Unallocated liabilities					<u>8,355</u>
					<u>122,158</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2001

33. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

OTHER INFORMATION FOR THE YEAR ENDED 31ST DECEMBER, 2000

	Broking HK\$'000	Securities margin financing HK\$'000	Investment trading and holding HK\$'000	Corporate finance and asset management HK\$'000	Total HK\$'000
Additions of property and equipment	11,443	—	—	46	11,489
Depreciation and amortisation	3,306	—	—	18	3,324
Provision for doubtful debts	<u>9,218</u>	<u>4,183</u>	<u>—</u>	<u>—</u>	<u>13,401</u>

As over 90% of the Group's turnover and (loss) profit before taxation are derived from Hong Kong, no analysis of geographical segments has been disclosed in the financial statements.

34. RETIREMENT BENEFITS SCHEME

The Group operates the Mandatory Provident Fund Scheme for all qualifying employees. The assets of the scheme are held separately from those of the Group in funds under the control of trustees. The retirement benefits cost charged to income statement represent contributions payable to the scheme by the Group at rates specified in the rules of the scheme.