

# Notes to Financial Statements

31 December 2001

## 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
- 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 recently-issued and revised SSAPs and related Interpretations are effective for the first time for the current year's financial statements:

- SSAP 9 (Revised): "Events after the balance sheet date"
- SSAP 14 (Revised): "Leases"
- SSAP 18 (Revised): "Revenue"
- SSAP 26: "Segment reporting"
- SSAP 28: "Provisions, contingent liabilities and contingent assets"
- SSAP 29: "Intangible assets"
- SSAP 30: "Business combinations"
- SSAP 31: "Impairment of assets"
- SSAP 32: "Consolidated financial statements and accounting for investments in subsidiaries"
- Interpretation 12: "Business combinations - subsequent adjustment of fair values and goodwill initially reported"
- Interpretation 13: "Goodwill - continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves"

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 and Interpretations which have had a significant effect on the financial statements are summarised as follows:

## Notes to Financial Statements

31 December 2001

### 2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") (continued)

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure but no adjustment. Its principal impact on these financial statements is that a proposed final dividend which is not declared and approved until after the balance sheet date, is no longer recognised as a liability at the balance sheet date, but is disclosed as an allocation of retained earnings on a separate line within the capital and reserves section of the balance sheet. The prior year adjustment arising from the adoption of this new SSAP is detailed in note 12 to the financial statements.

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. Certain amendments have been made to the previous accounting measurement treatments, which may be accounted for retrospectively or prospectively, in accordance with the requirements of the SSAP. The revised SSAP requirements have not had a material effect on the amounts previously recorded in the financial statements and therefore no prior year adjustment has been required. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for operating leases, which are further detailed in note 31 to the financial statements.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 4 to the financial statements.

SSAP 31 prescribes the recognition and measurement criteria for impairment of assets. The SSAP is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year financial statements.

### 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 disclosure requirements of the Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of equity investments, as further explained below.

## Notes to Financial Statements

31 December 2001

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2001. 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.

#### 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 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 any 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.

## Notes to Financial Statements

31 December 2001

### 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 the fixed 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.

## Notes to Financial Statements

31 December 2001

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Intangible assets

Intangible assets, representing the eligibility rights to trade on or through The Stock Exchange of Hong Kong Limited (the "Stock Exchange Trading Rights") and the Hong Kong Futures Exchange Limited (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 15.

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 held on a long term basis are stated at cost less any impairment losses, on an individual basis.

#### Long term investments

Long term investments are non-trading investments in listed and unlisted equity securities intended to be held on a long term basis.

Listed securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. Unlisted securities are stated at their estimated fair values on, an individual basis. The estimated fair values of unlisted investments are determined by the directors having regard to, inter alia, the prices of the most recent reported sales or purchases of the securities, or comparison of price/earnings ratios and dividend yields of the securities with those of similar listed securities, with allowance made for the lower liquidity of the unlisted securities.

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.

## Notes to Financial Statements

31 December 2001

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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.

#### 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 an accrual basis.

## Notes to Financial Statements

31 December 2001

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within capital and reserves in 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.

In previous years, the Company recognised its proposed final dividend to shareholders, which was declared and approved after the balance sheet date, as a liability in its balance sheet. The revised accounting treatment for the proposed final dividend resulting from the adoption of SSAP 9 (Revised) has given rise to prior year adjustments in both the Group's and the Company's financial statements, further details of which are included in note 12 to the financial statements.

#### Operating leases

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 lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

#### Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange 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 at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are dealt with in the exchange equalisation reserve.

## Notes to Financial Statements

31 December 2001

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all its employees. The MPF Scheme has operated since 1 December 2000. 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 MPF Scheme. The assets of the MPF 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 MPF 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 MPF Scheme.

Prior to the MPF Scheme becoming effective, the Group operated a defined contribution retirement benefits scheme (the "Old Scheme") for those employees who were eligible to participate in this scheme. The Old Scheme operated in a similar way to the MPF Scheme, except that when an employee left the Old Scheme prior to his/her interest in the Group's employee contributions vesting fully, the ongoing contributions payable by the Group were reduced by the relevant amount of forfeited employer contributions. The Old Scheme was terminated with effect from 1 December 2000.

#### 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.

#### Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represents short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash and bank balances represent assets which are not restricted as to use.

## Notes to Financial Statements

31 December 2001

### 4. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as detailed in note 2 to the financial statements. 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 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; and
- (f) 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.

## Notes to Financial Statements

31 December 2001

### 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.

#### 2001

Group	Trading and		Margin	Corporate		Corporate	Eliminations	Consolidated
	Broking	investment		Money advisory and	Corporate			
	HK\$'000	HK\$'000	HK\$'000	lending	underwriting	and other	HK\$'000	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)	-
	<b>58,335</b>	<b>(1,561)</b>	<b>36,243</b>	<b>32,964</b>	<b>6,117</b>	<b>8,045</b>	<b>(4,046)</b>	<b>136,097</b>
Segment results	(48,619)	20,145	(8,008)	2,429	(1,683)	(4,691)	-	(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

## Notes to Financial Statements

31 December 2001

## 4. SEGMENT INFORMATION (continued)

## (a) Business segments (continued)

## 2000

Group	Trading and		Margin financing	Corporate		Corporate and other	Eliminations	Consolidated
	Broking	investment		Money lending	advisory and underwriting			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	146,726	49,967	58,709	3,578	7,529	3,118	-	269,627
Intersegment sales	-	-	683	-	-	1,199	(1,882)	-
	146,726	49,967	59,392	3,578	7,529	4,317	(1,882)	269,627
Segment results	26,831	34,608	(36,638)	291	(1,854)	4,331	-	27,569
Finance costs								(2,705)
Profit before tax								24,864
Tax								(1,186)
Net profit from ordinary activities attributable to shareholders								23,678

## Notes to Financial Statements

31 December 2001

## 4. SEGMENT INFORMATION (continued)

## (a) Business segments (continued)

## 2001

Group	Trading and		Margin financing	Corporate Money advisory and		Corporate and other	Eliminations	Consolidated
	Broking HK\$'000	investment HK\$'000		lending HK\$'000	underwriting HK\$'000			
Segment assets	198,980	128,644	263,173	126,283	1,614	166,093	(13,025)	871,762
Unallocated assets								1,098
Total assets								872,860
Segment liabilities	151,158	13,342	251,085	80,784	679	5,571	(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)	(2,169)	-	(11,011)
Impairment losses recognised in the profit and loss account	-	(5,552)	-	-	-	-	-	(5,552)
Provision for bad and doubtful debts	-	-	(20,000)	(9,922)	-	-	-	(29,922)
Capital expenditure	5,051	307	399	4,701	307	123	-	10,888

## Notes to Financial Statements

31 December 2001

## 4. SEGMENT INFORMATION (continued)

## (a) Business segments (continued)

## 2000

Group	Corporate						Eliminations	Consolidated
	Broking	Trading and investment	Margin financing	Money lending	advisory and underwriting	Corporate and other		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	170,135	201,302	337,232	31,948	1,939	150,892	(21,719)	871,729
Unallocated assets								20
<b>Total assets</b>								<b>871,749</b>
Segment liabilities	120,502	21,932	249,185	31,155	2,072	873	(21,719)	404,000
Unallocated liabilities								26,411
<b>Total liabilities</b>								<b>430,411</b>
Other segment information:								
Surplus on revaluation of investment property	-	-	-	-	-	9,000	-	9,000
Depreciation and amortisation	(4,458)	(228)	(304)	(467)	(329)	(1,386)	-	(7,172)
Impairment losses recognised in the profit and loss account	-	(107,330)	-	-	-	-	-	(107,330)
Provision for bad and doubtful debts	(3,125)	-	(26,639)	(1,064)	-	-	-	(30,828)
<b>Capital expenditure</b>	<b>11,616</b>	<b>637</b>	<b>850</b>	<b>1,992</b>	<b>858</b>	<b>212</b>	<b>-</b>	<b>16,165</b>

## Notes to Financial Statements

31 December 2001

### 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 the trading of securities, bullion and futures contracts; dividend income; interest income; corporate advisory fees; commission income from the underwriting and placing of shares; and rental income, after elimination of all significant intercompany transactions.

Revenue from the following activities has been included in turnover:

	<b>GROUP</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Commission and brokerage income	<b>59,437</b>	144,454
Profit/(loss) on trading of securities, bullion and futures contracts, net	<b>(7,183)</b>	48,738
Dividend income	<b>5,622</b>	1,432
Interest income	<b>64,000</b>	63,139
Rendering of services	<b>6,108</b>	7,404
Rental income	<b>–</b>	372
	<b>127,984</b>	265,539

## Notes to Financial Statements

31 December 2001

### 6. PROFIT FROM OPERATING ACTIVITIES

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

	GROUP	
	2001 HK\$'000	2000 HK\$'000
Cost of services provided	40,221	80,254
Auditors' remuneration	741	639
Depreciation	10,849	7,037
Loss on disposal of fixed assets	1,536	34
Amortisation of intangible assets	162	135
Operating lease rentals in respect of land and buildings	13,681	12,024
Provisions for bad and doubtful debts in respect of:		
Loans and advances	29,922	27,703
Trade debtors	-	3,125
	<b>29,922</b>	30,828
Staff costs (including directors' remuneration):		
Retirement benefits scheme contributions	2,986	2,236
Less: Forfeited contributions	(29)	(1,083)
Net retirement benefits contributions	2,957	1,153
Wages and salaries	63,385	64,277
	<b>66,342</b>	65,430
Interest expense for margin financing and money lending operations:		
Bank loans, overdrafts and other loans wholly repayable within five years	17,195	25,252
Clients	3,407	8,284
	<b>20,602</b>	33,536

## Notes to Financial Statements

31 December 2001

## 6. PROFIT FROM OPERATING ACTIVITIES (continued)

		GROUP	
		2001	2000
Notes		HK\$'000	HK\$'000
	Foreign exchange losses, net	264	360
	Loss/(gain) on disposal of long term investments	3,177	(163,870)
	Profit on trading of short term investments	(4,243)	(39,000)
	Interest income:		
	Banks and financial institutions	(6,065)	(10,385)
	Clients	(56,677)	(51,890)
	Intermediate holding company	(5,827)	(2,666)
	Fellow subsidiaries	(1,258)	(864)
		<b>(69,827)</b>	<b>(65,805)</b>
	Dividend income:		
	Listed investments	(5,622)	(1,230)
	Unlisted investments	-	(202)
		<b>(5,622)</b>	<b>(1,432)</b>
	Net rental income	-	(359)

Notes:

- (a) The loss/(gain) on disposal of long term investments included a deficit of HK\$770,000 (2000: HK\$2,542,000) transferred from the long term investment revaluation reserve (note 27).
- (b) The Group's interest income was derived principally from the margin financing and money lending operations, except for the interest income from an intermediate holding company, details of which are set out in notes 21 and 32 to the financial statements, respectively.

## Notes to Financial Statements

31 December 2001

### 7. FINANCE COSTS

	GROUP	
	2001	2000
	HK\$'000	HK\$'000
Interest on mortgage loan	1,451	2,705

### 8. DIRECTORS' REMUNERATION

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

	GROUP					
	Executive		Non-executive		Independent non-executive	
	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fees	49	50	10	10	76	62
Other emoluments:						
Salaries, allowances and benefits in kind	7,473	8,205	-	-	107	32
Retirement benefits scheme contributions	265	327	-	-	-	-
Bonuses paid and payable	273	272	-	-	-	-
	8,060	8,854	10	10	183	94

## Notes to Financial Statements

31 December 2001

### 8. DIRECTORS' REMUNERATION (continued)

The remuneration of the directors fell within the following bands:

	Number of directors	
	2001	2000
Nil - HK\$1,000,000	3	4
HK\$1,000,001 - HK\$1,500,000	5	3
HK\$1,500,001 - HK\$2,000,000	1	1
HK\$2,500,001 - HK\$3,000,000	-	1
	<b>9</b>	<b>9</b>

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

During the year, 20,000,000 share options were granted to a director in respect of his services to the Group, further details of which are set out under the heading "Share option schemes" in the Report of the Directors on pages 12 to 13. No value in respect of the share options granted during the year has been charged to the profit and loss account and included in the directors' remuneration.

### 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five (2000: five) executive directors, details of whose remuneration are disclosed in note 8 above.

## Notes to Financial Statements

31 December 2001

### 10. TAX

	GROUP	
	2001	2000
	HK\$'000	HK\$'000
Provision for the year:		
Hong Kong	850	1,500
Elsewhere	148	162
Overprovision in prior year	(5)	-
	<b>993</b>	1,662
Deferred tax (note 25)	(12)	(476)
Tax charge for the year	<b>981</b>	1,186

Hong Kong profits tax has been provided at the rate of 16% (2000: 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.

### 11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2001 dealt with in the financial statements of the Company is HK\$33,144,000 (2000: HK\$50,558,000).

## Notes to Financial Statements

31 December 2001

### 12. DIVIDENDS

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Interim:		
0.425 HK cent (2000: 0.525 HK cent) per ordinary share	<b>20,682</b>	25,526
Proposed final:		
0.1 HK cent (2000: 0.6 HK cent) per ordinary share	<b>4,862</b>	29,174
	<b>25,544</b>	54,700

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

During the year, the Group adopted the revised SSAP 9 "Events after the balance sheet date", as detailed in note 2 to the financial statements. To comply with this revised SSAP, a prior year adjustment has been made to reclassify the proposed final dividend for the year ended 31 December 2000 of HK\$29,174,000, which was recognised as a liability at the prior year end, to the proposed final dividend reserve account within the capital and reserves section of the balance sheet. The result of this is to reduce both the Group's and the Company's current liabilities and increase the reserves previously reported as at 31 December 2000 by HK\$29,174,000.

The effect of this change in accounting policy is that the current year's proposed final dividend of HK\$4,862,000 has been included in the proposed final dividend reserve account within the capital and reserves section of the balance sheet as at 31 December 2001, whereas in previous years it would have been recognised as a current liability at the balance sheet date.

### 13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders of HK\$19,974,000 (2000: HK\$23,678,000) and the weighted average of 4,863,801,133 (2000: 4,862,194,240) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the year of HK\$19,974,000 (2000: HK\$23,678,000). The weighted average number of ordinary shares used in the calculation is the 4,863,801,133 (2000: 4,862,194,240) ordinary shares in issue during the year, as used in the basic earnings per share calculation; the weighted average of 77,447,441 ordinary shares (2000: Nil) assumed to have been issued at no consideration on the deemed exercise of all warrants outstanding during the year. The share options outstanding during the year had an anti-dilutive effect on the basic earnings per share for the year and therefore were excluded from the calculation of diluted earnings per share.

## Notes to Financial Statements

31 December 2001

### 13. EARNINGS PER SHARE (continued)

A diluted earnings per share amount for the year ended 31 December 2000 has not been disclosed as the warrants and share options outstanding during the year had an anti-dilutive effect on the basic earnings per share for that year.

### 14. FIXED ASSETS

	Leasehold land and building	Leasehold improvements	Furniture and equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
GROUP					
Cost:					
At beginning of year	100,000	12,674	25,694	3,316	141,684
Additions	–	5,710	5,178	–	10,888
Disposals	–	(3,248)	(117)	–	(3,365)
Exchange realignment	–	(16)	(8)	–	(24)
At 31 December 2001	100,000	15,120	30,747	3,316	149,183
Accumulated depreciation:					
At beginning of year	1,167	6,984	13,385	3,140	24,676
Provided during the year	2,000	3,876	4,904	69	10,849
Disposals	–	(1,385)	(89)	–	(1,474)
Exchange realignment	–	(9)	(4)	–	(13)
At 31 December 2001	3,167	9,466	18,196	3,209	34,038
Net book value:					
At 31 December 2001	96,833	5,654	12,551	107	115,145
At 31 December 2000	98,833	5,690	12,309	176	117,008

The Group's leasehold land and building is situated in Hong Kong and is held under a long term lease. At 31 December 2001, this building was pledged to secure banking facilities granted to the Group (note 29).

## Notes to Financial Statements

31 December 2001

### 14. FIXED ASSETS (continued)

	Leasehold improvements	Furniture and Equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>COMPANY</b>				
Cost:				
At beginning of year	2,449	8,203	3,009	13,661
Written off during the year	–	(8,203)	–	(8,203)
At 31 December 2001	2,449	–	3,009	5,458
Accumulated depreciation:				
At beginning of year	2,411	8,203	3,002	13,616
Provided during the year	23	–	7	30
Written off during the year	–	(8,203)	–	(8,203)
At 31 December 2001	2,434	–	3,009	5,443
Net book value:				
At 31 December 2001	15	–	–	15
At 31 December 2000	38	–	7	45

### 15. INTANGIBLE ASSETS

	GROUP	
	2001	2000
	HK\$'000	HK\$'000
Cost:		
At beginning of year	1,619	–
Transfer from other assets	–	1,619
At 31 December	1,619	1,619
Accumulated amortisation:		
At beginning of year	135	–
Provided during the year	162	135
At 31 December	297	135
Net book value at 31 December	1,322	1,484

## Notes to Financial Statements

31 December 2001

### 15. INTANGIBLE ASSETS (continued)

Pursuant to the restructuring of the Stock Exchange and the Hong Kong Futures Exchange Limited (the "Future Exchange") with effect from 6 March 2000, 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 were 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 2000.

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.

### 16. OTHER ASSETS

	<b>GROUP</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Membership in the Chinese Gold and Silver Exchange	<b>1,280</b>	1,280
Statutory deposits in respect of securities and commodities dealings	<b>4,450</b>	4,800
Club debentures	<b>360</b>	360
	<b>6,090</b>	6,440

## Notes to Financial Statements

31 December 2001

### 17. INTERESTS IN SUBSIDIARIES

	COMPANY	
	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	99,869	60,359
Amounts due from subsidiaries	393,429	481,516
Amounts due to subsidiaries	(2,708)	(2,712)
	<b>490,590</b>	539,163
Provisions for impairment	(148,100)	(118,100)
	<b>342,490</b>	421,063

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
			2001	2000	
Kingwise Secretarial Services Limited	Hong Kong	HK\$2	100	100	Future contracts trading
Polyluck Trading Limited	Hong Kong	HK\$2	100	100	Property holding
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 finance 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 Financial Statements

31 December 2001

### 17. 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
			2001	2000	
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	100	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 Financial Statements

31 December 2001

### 18. INVESTMENTS

#### Long term investments

	GROUP	
	2001	2000
	HK\$'000	HK\$'000
Listed equity investments in Hong Kong, at market value	<b>31,967</b>	34,091

#### Short term investments

	GROUP	
	2001	2000
	HK\$'000	HK\$'000
Listed equity investments, at market value:		
Hong Kong	<b>95,354</b>	165,543
Elsewhere	<b>341</b>	668
	<b>95,695</b>	166,211

At 31 December 2001, certain listed equity investments were pledged to secure banking facilities granted to the Group (note 29).

## Notes to Financial Statements

31 December 2001

### 19. LOANS AND ADVANCES

	GROUP	
	2001	2000
	HK\$'000	HK\$'000
Loans and advances	<b>392,772</b>	379,900
Provisions for bad and doubtful debts	<b>(97,809)</b>	(86,405)
	<b>294,963</b>	293,495
Market value of collateral held at 31 December	<b>435,261</b>	518,896

The Group's loans and advances arose from margin financing and money lending operations.

At 31 December 2001, certain client collateral was pledged to secure banking facilities granted to the Group (note 29).

Included in the Group's loans and advances is an amount of HK\$12,251,000 (2000: HK\$9,885,000) receivable from fellow subsidiaries, which are secured on marketable securities, bear interest at 4% over the Hong Kong Prime Rate (2000: 4% over the Hong Kong Prime Rate) and are repayable on demand.

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

	GROUP	
	2001	2000
	HK\$'000	HK\$'000
Repayable:		
On demand	<b>186,822</b>	266,361
Within three months	<b>41,826</b>	5,377
Within one year but over three months	<b>55,956</b>	16,298
Within five years but over one year	<b>10,359</b>	5,459
	<b>294,963</b>	293,495
Portion classified as current assets	<b>(284,604)</b>	(288,036)
Portion classified as long term loans receivable under non-current assets	<b>10,359</b>	5,459

## Notes to Financial Statements

31 December 2001

### 20. 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:

	<b>GROUP</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Current to 90 days	<b>24,269</b>	23,051

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 with the contracting parties.

### 21. 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 (2000: Hong Kong Prime Rate) and has no specific terms of repayment.

### 22. CLIENT DEPOSITS

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

	<b>GROUP</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Repayable on demand	<b>181,036</b>	150,625

## Notes to Financial Statements

31 December 2001

### 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	
	2001	2000
	HK\$'000	HK\$'000
Current to 90 days	<b>19,025</b>	16,344

### 24. INTEREST-BEARING BANK AND OTHER BORROWINGS

	GROUP		COMPANY	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank overdrafts, Secured (note 29)	<b>3,449</b>	48,392	-	-
Bank loans:				
Secured (note 29)	<b>224,750</b>	205,320	-	-
Unsecured	<b>61,209</b>	-	<b>4,359</b>	-
	<b>285,959</b>	205,320	<b>4,359</b>	-
Other loan, unsecured	<b>10,000</b>	-	-	-
	<b>299,408</b>	253,712	<b>4,359</b>	-
Bank overdrafts, bank loans and other loan repayable:				
Within one year or on demand	<b>268,154</b>	253,712	<b>1,846</b>	-
In the second year	<b>5,206</b>	-	<b>1,846</b>	-
In the third to fifth years, inclusive	<b>26,048</b>	-	<b>667</b>	-
	<b>299,408</b>	253,712	<b>4,359</b>	-
Portion classified as current liabilities	<b>(268,154)</b>	(253,712)	<b>(1,846)</b>	-
Long term portion	<b>31,254</b>	-	<b>2,513</b>	-

## Notes to Financial Statements

31 December 2001

## 25. DEFERRED TAX

	GROUP		COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
At beginning of year	12	490	-	462
Exchange realignment	-	(2)	-	-
Credit for the year (note 10)	(12)	(476)	-	(462)
At 31 December	-	12	-	-

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

	GROUP		COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Accelerated depreciation allowances	568	1,120	-	-
Tax losses	(33,945)	(29,480)	(318)	(290)
	(33,377)	(28,360)	(318)	(290)

## 26. SHARE CAPITAL

## Shares

	COMPANY	
	2001 HK\$'000	2000 HK\$'000
Authorised:		
8,000,000,000 ordinary shares of HK\$0.025 each	200,000	200,000
Issued and fully paid:		
4,862,366,440 (2000: 4,862,194,240) ordinary shares of HK\$0.025 each	121,559	121,554

## Notes to Financial Statements

31 December 2001

### 26. SHARE CAPITAL (continued)

#### Shares (continued)

During the year, there were the following movements in share capital:

- (a) 4,222,200 ordinary shares of HK\$0.025 each were issued for cash at a subscription price of HK\$0.11 per share pursuant to the exercise of the Company's warrants for a total cash consideration, before expenses, of HK\$464,442.
- (b) The Company repurchased its own shares through the Stock Exchange, details of which are set out as follows:

During the year, the Company repurchased 4,050,000 of its ordinary shares of HK\$0.025 each on the Stock Exchange. The summary details of which are as follows:

Month	Number of shares purchased	Price per share		Total price paid HK\$'000
		Highest HK\$	Lowest HK\$	
October 2001	500,000	0.117	0.095	53
November 2001	50,000	0.095	0.095	5
December 2001	3,500,000	0.151	0.140	506
	4,050,000			564

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\$464,000, has been charged to the retained profits. An amount equivalent to the par value of the shares cancelled has been transferred from the retained profits of the Company to the capital redemption reserve.

The repurchases of the Company's shares during the year were effected by the directors, pursuant to the mandate from shareholders received at the last annual general meeting, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Group.

#### Warrants

At the beginning of the year, there were 970,000,000 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\$0.185 per share at any time during the period from 18 February 2000 to 17 February 2001. At 17 February 2001, all of these warrants remained outstanding and lapsed accordingly.

## Notes to Financial Statements

31 December 2001

### 26. SHARE CAPITAL (continued)

#### Warrants (continued)

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 12 April 2001, resulting in 972,438,848 warrants being issued. These warrants 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, at any time from the date of issue to 18 April 2002.

During the year, 4,222,200 warrants were exercised for 4,222,200 fully paid ordinary shares of HK\$0.025 each in the Company at HK\$0.11 per share. At 31 December 2001, the Company had 968,216,648 outstanding warrants.

Subsequent to the balance sheet date, 320,300 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 lapsed unexercised on 18 April 2002.

#### Share options

The Company operates a share option scheme (the "Scheme"), further details of which are set out under the heading "Share option schemes" in the Report of the Directors on pages 12 and 13.

At the beginning of the year, there were 325,000,000 options outstanding under the Scheme, which entitled the holders to subscribe in cash for fully paid ordinary shares of the Company at various subscription prices ranging from HK\$0.1298 to HK\$0.3189 per share (subject to adjustment) on or before 11 July 2003.

During the year, the Company granted a total of 56,000,000 share options under the Scheme for a nominal consideration of HK\$1 in total per grant. The share options granted entitle the holders to subscribe in cash for fully paid ordinary shares in the Company at various subscription prices ranging from HK\$0.138 to HK\$0.18 per share (subject to adjustment) at any time after the vesting period and up to 11 July 2003.

A total of 40,000,000 share options with an exercise price of HK\$0.1298 were cancelled during the year. At the balance sheet date, the Company had 341,000,000 share options outstanding under the Scheme, with exercise prices ranging from HK\$0.138 to HK\$0.3508. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 341,000,000 additional fully paid ordinary shares of HK\$0.025 each and proceeds of approximately HK\$85,250,000.

## Notes to Financial Statements

31 December 2001

## 27. RESERVES

## GROUP

	Share premium account HK\$'000	Warrant subscription reserve HK\$'000	Capital redemption reserve HK\$'000	Long term investment revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2000	201,285	–	1,483	(194,835)	150,588	158,521
Placement of warrants	–	63,050	–	–	–	63,050
Decrease in fair values of long term investments, net	–	–	–	(9,811)	–	(9,811)
Transfer to profit and loss account:						
On disposal of long term investments (note 6(a))	–	–	–	2,542	–	2,542
Impairment in fair values of long term investments	–	–	–	107,330	–	107,330
Net profit for the year	–	–	–	–	23,678	23,678
Interim dividend paid	–	–	–	–	(25,526)	(25,526)
Proposed final dividend	–	–	–	–	(29,174)	(29,174)
At 31 December 2000 and beginning of year	201,285	63,050	1,483	(94,774)	119,566	290,610
Premium on issue of new shares	359	–	–	–	–	359
Realisation of warrant subscription reserve	–	(63,050)	–	–	–	(63,050)
Transfer from profit and loss account on cancellation of repurchased shares	–	–	100	–	(100)	–
Write-off of premium paid on repurchase of shares	–	–	–	–	(464)	(464)
Increase in fair values of long term investments, net	–	–	–	5,580	–	5,580
Transfer to profit and loss account:						
On disposal of long term investments (note 6(a))	–	–	–	770	–	770
Impairment in fair values of long term investments	–	–	–	5,552	–	5,552
Net profit for the year	–	–	–	–	19,974	19,974
Interim dividend paid	–	–	–	–	(20,682)	(20,682)
Proposed final dividend	–	–	–	–	(4,862)	(4,862)
<b>At 31 December 2001</b>	<b>201,644</b>	<b>–</b>	<b>1,583</b>	<b>(82,872)</b>	<b>113,432</b>	<b>233,787</b>

**Notes to Financial Statements**

31 December 2001

**27. RESERVES** (continued)**COMPANY**

	Share premium account HK\$'000	Warrant subscription reserve HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2000	201,285	–	1,483	8,782	211,550
Placement of warrants	–	63,050	–	–	63,050
Net profit for the year	–	–	–	50,558	50,558
Interim dividend paid	–	–	–	(25,526)	(25,526)
Proposed final dividend	–	–	–	(29,174)	(29,174)
At 31 December 2000 and beginning of year	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)
Transfer from profit and loss account on cancellation of repurchased shares	–	–	100	(100)	–
Write-off of premium paid on repurchase of shares	–	–	–	(464)	(464)
Net profit for the year	–	–	–	33,144	33,144
Interim dividend paid	–	–	–	(20,682)	(20,682)
Proposed final dividend	–	–	–	(4,862)	(4,862)
<b>At 31 December 2001</b>	<b>201,644</b>	<b>–</b>	<b>1,583</b>	<b>11,676</b>	<b>214,903</b>

## Notes to Financial Statements

31 December 2001

### 28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit from operating activities to net cash inflow/(outflow) from operating activities:

	2001 HK\$'000	2000 HK\$'000
Profit from operating activities	<b>22,623</b>	27,569
Realisation of warrant subscription reserve	<b>(63,050)</b>	-
Surplus on revaluation of investment property	-	(9,000)
Loss/(gain) on disposal of long term investments	<b>3,177</b>	(163,870)
Impairment in fair values of long term investments	<b>5,552</b>	107,330
Decrease/(increase) in fair values of		
short term investments	<b>(36,350)</b>	49,817
Provisions for bad and doubtful debts	<b>29,922</b>	30,828
Dividend income	<b>(5,622)</b>	(1,432)
Interest income, excluding that derived from margin		
financing and money lending operations	<b>(5,827)</b>	(2,666)
Depreciation	<b>10,849</b>	7,037
Loss on disposal of fixed assets	<b>1,536</b>	34
Amortisation of intangible assets	<b>162</b>	135
Exchange realignment, net	<b>11</b>	37
Decrease/(increase) in short term investments	<b>106,866</b>	(130,304)
Increase in loans and advances	<b>(31,390)</b>	(40,203)
Decrease/(increase) in trade debtors	<b>(1,218)</b>	180,740
Decrease/(increase) in other debtors,		
prepayments and deposits	<b>(1,112)</b>	13,778
Increase in amount due from intermediate		
holding company	<b>(14,400)</b>	(19,692)
Decrease/(increase) in cash held on behalf of clients	<b>(41,631)</b>	2,123
Increase/(decrease) in client deposits	<b>30,411</b>	(141,856)
Increase/(decrease) in trade creditors	<b>2,681</b>	(51,516)
Increase/(decrease) in other creditors and accruals	<b>1,257</b>	(7,940)
Net cash inflow/(outflow) from operating activities	<b>14,447</b>	(149,051)

## Notes to Financial Statements

31 December 2001

## 28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

## (b) Analysis of changes in financing during the year:

	Issued capital (including share premium account) HK\$'000	Warrant subscription reserve HK\$'000	Long term bank and other loans HK\$'000	Total HK\$'000
At 1 January 2000	322,839	–	36,900	359,739
Cash inflow/(outflow) from financing activities, net	–	63,050	(11,100)	51,950
At 31 December 2000 and beginning of year	322,839	63,050	25,800	411,689
Realisation of warrant subscription reserve	–	(63,050)	–	(63,050)
Cash inflow from financing activities, net	364	–	10,659	11,023
<b>At 31 December 2001</b>	<b>323,203</b>	<b>–</b>	<b>36,459</b>	<b>359,662</b>

## (c) Major non-cash transactions:

- (i) The Group's investment property with a carrying value of HK\$100,000,000 was transferred to fixed assets in the prior year.
- (ii) As further explained in note 15 to the financial statements in the prior year, the Group received four Stock Exchange Trading Rights, five Futures Exchange Trading Rights and 10,187,500 HKEC Shares in exchange for its shares previously held in the Stock Exchange and the Futures Exchange. The carrying costs of the previously held shares have been apportioned to the Stock Exchange Trading Rights, Futures Exchange Trading Rights and the HKEC Shares on the basis of their respective estimated fair values on 6 March 2000.

## Notes to Financial Statements

31 December 2001

### 29. 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 (2000: HK\$1,500,000); and
- (b) leasehold land and building with a net book value of HK\$96,833,000 (2000: HK\$98,833,000).

Apart from the above, listed equity investments belonging to the Group, fellow subsidiaries and clients with a total market value of approximately HK\$447,753,000 (2000: HK\$639,076,000) were pledged to banks to secure loans and overdraft facilities granted to two subsidiaries.

At the balance sheet date, the Company did not have any other material assets pledged to other independent third parties.

### 30. CONTINGENT LIABILITIES

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

	GROUP		COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	-	-	<b>875,370</b>	769,900
Guarantees given to banks in connection with letters of guarantee issued by banks	<b>5,500</b>	5,500	<b>5,500</b>	5,500
	<b>5,500</b>	5,500	<b>880,870</b>	775,400

In addition, the Company had guarantees given to financial institutions for commodities and bullion trading facilities of approximately HK\$11,970,000 (2000: HK\$11,970,000) which remained unutilised at 31 December 2001 (2000: Nil).

## Notes to Financial Statements

31 December 2001

### 31. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office premises under operating leases, which are 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:

	<b>GROUP</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
		(Restated)
Within one year	<b>8,754</b>	13,637
In the second to fifth years, inclusive	<b>2,276</b>	7,394
	<b>11,030</b>	21,031

SSAP 14 (Revised), which was adopted during the year, requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than only the payments to be made during the next year as was previously required. Accordingly, the prior year comparative amounts for operating leases as lessee have been restated to accord with the current year's presentation.

At 31 December 2001, the Company had not entered into any arrangement under non-cancellable operating leases (2000: Nil).

## Notes to Financial Statements

31 December 2001

### 32. RELATED PARTY TRANSACTIONS

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

	Notes	2001 HK\$'000	2000 HK\$'000
Consulting and servicing fees paid to fellow subsidiaries	(a)	6,000	28,000
Commission and brokerage income received from:	(b)		
Fellow subsidiaries		86	1,449
Directors and related parties		225	756
Interest income received from:			
Intermediate holding company	(c)	5,827	2,666
Fellow subsidiaries	(d)	1,258	864
Rental income received from fellow subsidiary	(e)	–	372
Corporate advisory fees and underwriting commission income received from a fellow subsidiary	(f)	300	670

Notes:

- (a) The consulting and servicing fees relates to the advisory and management services provided by fellow subsidiaries for (i) e-commerce consultations on feasibility's studies, infrastructure planning, core engine specifications, security specifications, and the development of internet platform and continuing maintenance; and (ii) marketing and promotional services provided for image design, color separation, type setting, printing, publishing, and all other marketing and promotional arrangements through different media. These fees were calculated on terms mutually agreed by the contracting parties.
- (b) The 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 customers.
- (c) The interest income relates to cash advances to Tek Lee Finance and Investment Corporation Limited, further details of which are set out in note 21 to the financial statements.
- (d) The interest income relates to the Group's margin financing business and was calculated at the rate of 4% over the Hong Kong Prime Rate (2000: 3% to 5% over the Hong Kong Prime Rate).
- (e) The rental income in the prior year related to the leasing of an investment property to South China Information and Technology Limited and was calculated by reference to market rentals.
- (f) The corporate advisory fees and underwriting commission income relates to the Group's corporate advisory and share underwriting business and were calculated by reference to rates charged to third party customers.

## Notes to Financial Statements

31 December 2001

### 33. 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 and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified to conform with the current year's presentation.

### 34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 24 April 2002.