

NOTES TO FINANCIAL STATEMENTS

31 December 2001

1. CORPORATE INFORMATION

The registered office of Shenyin Wanguo (H.K.) Limited is situated at 28/F, Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong.

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

- securities trading and investment holding
- securities broking and dealing
- margin financing and direct loan operations
- provision of investment advisory services

In addition, the jointly-controlled entities of the Group were involved in highway operations during the year.

In the opinion of the directors, the ultimate holding company is Shenyin Wanguo Holdings (B.V.I.) Limited, which is incorporated in the British Virgin Islands with limited liability.

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 consolidated 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”

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

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 adopting these SSAPs and Interpretations are summarised as follows:

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 the 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 profits on a separate line within the capital and reserves section of the balance sheet.

SSAP 14 (Revised) prescribes the basis for accounting for finance and operating leases, and the required disclosures in respect thereof. Certain amendments have been made to the previous accounting 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 the SSAP have resulted in changes to the information disclosed for commitments under operating leases, as further detailed in note 35 to the financial statements.

SSAP 18 (Revised) prescribes the recognition of revenue and was revised as a consequence of the revision to SSAP 9 described above. Proposed final dividends from subsidiaries that are declared and approved by the subsidiaries after the balance sheet date are no longer recognised in the Company’s own financial statements for the year. This SSAP has had no significant impact on the preparation of these 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 to choose one of these bases as 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 28 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosure in respect thereof. This SSAP has had no significant impact on the preparation of these financial statements.

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

SSAP 29 prescribes the recognition and measurement criteria for intangible assets, together with the disclosure requirements. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatment for intangible assets and the additional disclosures that it requires have not been significant for these financial statements. The SSAP does, however, require that impairment losses on intangible assets are aggregated with the accumulated amortisation, whereas previously they were deducted from the cost of the relevant asset. This disclosure reclassification has had no effect on the net carrying amount of intangible assets in the balance sheet.

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill on acquisition. The SSAP requires the disclosure of goodwill in the non-current assets section of the consolidated balance sheet. It requires that goodwill is amortised to the consolidated profit and loss account over its estimated useful life. This SSAP has had no significant impact on the preparation of these financial statements.

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

SSAP 32 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements, and has had no significant impact on the preparation of these financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2001, with the exception of Jammy Chai (Guangzhou) Food Company Limited, which has not been consolidated for the reasons set out in note 24 to the financial statements. 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.

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

Subsidiaries

A subsidiary is a company, other than a jointly-controlled entity, 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.

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

- (a) a subsidiary, if the Company has unilateral control over the joint venture company;
- (b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control over the joint venture company;
- (c) an associate, if the Company does not have unilateral or joint control, but holds generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment, if the Company holds less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Jointly-controlled entities

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

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

Jointly-controlled entities *(Continued)*

The Group's share of the post acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. Where the profit sharing ratio is different from the Group's equity interest, the share of post-acquisition results of the jointly-controlled entities is determined based on the agreed profit sharing ratio. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries, which indirectly held the interest of jointly-controlled entities, represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset. The goodwill arose on the acquisition of a subsidiary which holds a jointly-controlled entity whose principal activity is the operation of a toll road. The goodwill is amortised by the annuity method over 26 years, representing the remaining joint venture period of the jointly-controlled entities holding the toll road. In determining the estimated useful life of the goodwill, directors have considered, among other things, the expected term of the economic benefits to be obtained from the jointly controlled entities. In the opinion of the directors, the amortisation period is reasonable and is reflective of the estimated useful life of such goodwill.

The compound rate of the annuity method for the amortisation of goodwill was changed from 8% to 6% with effect from 1 January 2001 as the directors considered it being more appropriate to reflect the economic value of the subsidiary with reference to the current bank deposits rate in the People's Republic of China ("PRC"). The change in this accounting estimate has increased the current year's amortisation charge by HK\$305,746.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 an impairment loss recognised for an asset in previous 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 only 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.

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	2%
Buildings	4%
Leasehold improvements	Over the lease terms
Furniture, fixtures and equipment	15%-33 $\frac{1}{3}$ %
Motor vehicles	25%

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.

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

Other assets

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

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.

Stock and Futures Exchange trading rights

The eligibility rights to trade on or through The Stock Exchange of Hong Kong Limited (the "Stock Exchange trading rights") and Hong Kong Futures Exchange Limited (the "Futures Exchange trading right"), are stated at cost less accumulated amortisation and any impairment losses. The cost of the trading rights was determined based on the carrying values of the previously held shares in The Stock Exchange of Hong Kong Limited and Hong Kong Futures Exchange Limited, respectively. Amortisation is calculated on the straight-line basis to write off the cost of the trading rights over their estimated useful life of 10 years.

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) securities and futures contracts trading profits or losses, recognised on a trade date basis;
- (b) interest income, on a time proportion basis taking into account the principal outstanding and the effective rate of interest applicable;
- (c) commission and trading revenue, on a trade date basis;
- (d) underwriting commission, when the obligation under the underwriting or sub-underwriting agreement has expired;
- (e) from the rendering of services, as the underlying services are provided; and
- (f) dividend income, when the shareholders' right to receive payment has been established.

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

Long term investments

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

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

Short term investments

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

Staff retirement scheme

The Group operates a Mandatory Provident Fund scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. The Group also retains its previous retirement scheme (the "ORSO Scheme") registered under the Occupational Retirement Scheme Ordinance as a top-up benefit to its employees.

Contributions are made based on a percentage of the employees' relevant income or basic salaries, whichever the greater, and are charged to the profit and loss account as they become payable. When the contribution is over the statutory maximum requirements, the excess contribution will be credited as voluntary contribution to the ORSO Scheme. The employer's mandatory contributions vest fully with the employees when contributed into the MPF Scheme. The employer's voluntary contribution vest with the employees according to the vesting scale of the ORSO Scheme. Forfeited contributions in respect of employees who leave the Group before their contributions fully vest are available to the Group to offset its future voluntary contribution.

The assets of the MPF Scheme and the ORSO Scheme are held separately from those of the Group in an independently administered fund.

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

Loans and advances

Loans and advances to customers and accrued interest thereon are stated in the balance sheet net of provisions for bad and doubtful debts.

Interest on doubtful advances is credited to a suspense account which is netted in the balance sheet against the relevant advances.

Bad and doubtful debts

Provision is made against advances and other accounts as and when they are considered doubtful. In addition, an amount is set aside as a general provision for doubtful debts. Loans and advances are stated in the financial statements net of these provisions.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

Deferred tax

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

Dividend

Final dividend proposed by the directors is classified as a separate allocation of retained profits within capital and reserves in the balance sheet, until it is approved by the shareholders in a general meeting. When this dividend is approved by the shareholders and declared, it is recognised as a liability.

Foreign currency transactions

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.

NOTES TO FINANCIAL STATEMENTS

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

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

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 segments; and (ii) on a secondary segment reporting basis, by geographical segments.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and 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. The summarised details of the business segments are as follows:

- (a) securities trading and investment holding
- (b) securities broking and dealing
- (c) margin financing and direct loan operations
- (d) provision of investment advisory services

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

The Group's inter-segment sales and transfers are transacted with reference to terms and conditions as used for such transactions similar to those with third parties.

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4. SEGMENT INFORMATION (Continued)

The following tables represent turnover, results and certain assets, liabilities and expenditure information for the Group's business and geographical segments.

(a) Business segments

	Securities trading and investment holding		Securities broking and dealing		Margin financing and direct loan operations		Provision of investment advisory services		Eliminated on consolidation		Total	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Segment turnover:												
External customers	243,144	353,061	77,519	72,263	43,681	79,242	4,341	4,638	—	—	368,685	509,204
Inter-segment	—	—	878	—	—	—	2,385	3,893	(3,263)	(3,893)	—	—
Total	<u>243,144</u>	<u>353,061</u>	<u>78,397</u>	<u>72,263</u>	<u>43,681</u>	<u>79,242</u>	<u>6,726</u>	<u>8,531</u>	<u>(3,263)</u>	<u>(3,893)</u>	<u>368,685</u>	<u>509,204</u>
Segment results	<u>(64,157)</u>	<u>21,416</u>	<u>4,203</u>	<u>1,778</u>	<u>71,496</u>	<u>1,514</u>	<u>926</u>	<u>1,861</u>	—	—	<u>12,468</u>	<u>26,569</u>
Unallocated expenses											<u>(7,533)</u>	<u>(15,583)</u>
Profit from operating activities											<u>4,935</u>	<u>10,986</u>
Finance costs											<u>(923)</u>	<u>(4,919)</u>
Share of profits of: Jointly-controlled entities	17,124	19,303									<u>17,124</u>	<u>19,303</u>
An associate	24	—									<u>24</u>	<u>—</u>
Profit before tax	<u>(2,631)</u>	<u>(31)</u>	<u>(285)</u>	<u>—</u>	<u>(200)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>21,160</u>	<u>25,370</u>
Tax											<u>(3,116)</u>	<u>(31)</u>
Profit before minority interests											<u>18,044</u>	<u>25,339</u>
Minority interests											<u>—</u>	<u>172</u>
Net profit from ordinary activities attributable to shareholders											<u>18,044</u>	<u>25,511</u>

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4. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

	Securities trading and investment holding		Securities broking and dealing		Margin financing and direct loan operations		Provision of investment advisory services		Eliminated on consolidation		Total	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Segment assets	371,988	429,334	587,551	267,742	235,800	449,029	8,666	11,311	—	—	1,204,005	1,157,416
Goodwill	61,619	62,958									61,619	62,958
Interests in jointly-controlled entities	195,842	213,815									195,842	213,815
Interest in an associate	503	—									503	—
Unallocated assets											16,261	20,447
Total assets	7,432	17,395	485,650	198,739	341,239	612,153	103	1,266	—	—	1,478,230	1,454,636
Segment liabilities											834,424	829,553
Unallocated liabilities											439	—
Total liabilities											834,863	829,553
Other Information												
Capital expenditure			5,464	9,686							5,464	9,686
Amortisation of trading rights			842	430							842	430
Depreciation of segment assets			3,785	1,943							3,785	1,943
Provision for bad and doubtful debts												
Impairment provisions on long term investments					1,500	1,500					1,500	1,500
Write-back of prior years' accrued interest expenses	56,402	—									56,402	—
					51,796	—					51,796	—

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4. SEGMENT INFORMATION (Continued)

(b) Geographical segments

	2001	2000
	HK\$'000	HK\$'000
Segment turnover:		
PRC		
Hong Kong	301,162	495,868
Elsewhere	67,523	12,783
Others	—	553
	<u>368,685</u>	<u>509,204</u>
Segment results:		
PRC		
Hong Kong	9,386	24,431
Elsewhere	3,092	1,942
Others	(10)	196
	<u>12,468</u>	<u>26,569</u>
Segment assets:		
PRC		
Hong Kong	1,190,270	1,147,363
Elsewhere	287,960	307,273
	<u>1,478,230</u>	<u>1,454,636</u>
Additions to fixed assets and intangible assets:		
PRC		
Hong Kong	<u>11,334</u>	<u>21,750</u>

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5. TURNOVER

Turnover represents the aggregate of sales proceeds of securities and futures contracts trading, gross interest income, commission and brokerage income less rebates and fees for the rendering of services and dividend income. Revenue from the following activities has been included in turnover:

	Group	
	2001	2000
	HK\$	HK\$
Financial services:		
Sales proceeds from securities and futures contracts trading	235,117,740	344,519,243
Interest income from margin financing and direct loan operations	41,465,898	74,323,987
Commission and brokerage income	72,957,435	67,706,220
Rendering of services	7,950,715	6,550,722
	357,491,788	493,100,172
Others:		
Bank interest income	2,094,339	4,887,679
Dividend income from		
Listed equity investments	847,306	718,698
Unlisted equity investment – an unconsolidated subsidiary	7,086,492	7,610,544
Others	1,165,573	2,886,670
	11,193,710	16,103,591
	368,685,498	509,203,763

6. OTHER REVENUE AND GAINS

	Group	
	2001	2000
	HK\$	HK\$
Gain on disposal of listed equity investments	—	54,114,553
Gain on disposal of a subsidiary	495,151	—
Exchange gains, net	556,371	287,038
	1,051,522	54,401,591

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7. PROFIT FROM OPERATING ACTIVITIES

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

	Group	
	2001 HK\$	2000 HK\$
Depreciation	9,836,346	7,320,261
Amortisation of goodwill	1,339,656	717,272
Amortisation of Stock and Futures Exchange trading rights	842,366	430,000
Staff costs (including directors' remuneration — note 8):		
Wages and salaries	48,510,441	48,982,965
Write-back of overprovision for bonuses	(1,857,647)	—
Pension contributions	4,078,555	4,236,974
Less: Forfeited contributions	(747,492)	(1,143,163)
Net pension contributions*	<u>3,331,063</u>	<u>3,093,811</u>
	<u>49,983,857</u>	<u>52,076,776</u>
Interest expenses for financial services operations		
— on bank loans and overdrafts	8,451,083	26,697,725
— on other loans wholly repayable within five years	11,011,137	45,957,133
Minimum lease payments under operating leases	10,236,471	8,164,448
Provision for settlement of claims **	—	5,492,962
Auditors' remuneration	800,000	820,000
Loss on disposal of fixed assets	19,695	2,518
Loss/(gain) on disposal of a subsidiary	(495,151)	387,486
Net realised loss/(gain) on trading of listed equity investments	11,052,557	(1,630,946)
Net unrealised loss/(gain) on listed equity investments	(3,135,403)	27,707,025
Write-back of overprovision for legal and professional fees	<u>(1,160,305)</u>	<u>—</u>

* At 31 December 2001, the forfeited contributions available to the Group to reduce its contributions to the pension scheme in future years amounted to approximately HK\$12,450 (2000: HK\$380,076).

** The comparative figure represented provision for settlement of the claims raised by two brokerage clients of the Company's subsidiaries in 1997.

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8. DIRECTORS' REMUNERATION

Directors' remuneration, disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance, was as follows:

	Group	
	2001	2000
	HK\$	HK\$
Fees:		
Executive	—	—
Non-executive*	100,000	100,000
	100,000	100,000
Other emoluments:		
Executive		
Salaries, allowances and benefits in kind	2,616,000	3,165,615
Pension scheme contributions	225,600	753,797
	2,841,600	3,919,412
	2,941,600	4,019,412

* Except for the above directors' fees paid to the independent non-executive directors, there were no other emoluments payable to them during the year (2000: Nil).

The number of directors whose remuneration fell within the following bands is as set out below:

	Number of directors	
	2001	2000
Nil to HK\$1,000,000	8	8
HK\$1,500,001 to HK\$2,000,000	—	2
HK\$2,500,001 to HK\$3,000,000	1	—
	9	10

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2000: Nil).

NOTES TO FINANCIAL STATEMENTS

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one director (2000: two directors), details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining four (2000: three) non-director, highest paid employees are as follows:

	Group	
	2001	2000
	<i>HK\$</i>	<i>HK\$</i>
Salaries, allowances and benefits in kind	7,202,868	5,800,754
Bonuses	552,319	429,433
Pension scheme contributions	363,602	228,618
	<u>8,118,789</u>	<u>6,458,805</u>

The number of the non-director, highest paid employees whose remuneration fell within the following bands is as set out below:

	Number of directors	
	2001	2000
HK\$1,000,001 to HK\$1,500,000	1	—
HK\$1,500,001 to HK\$2,000,000	—	1
HK\$2,000,001 to HK\$2,500,000	3	2
	<u>4</u>	<u>3</u>

10. FINANCE COSTS

	Group	
	2001	2000
	<i>HK\$</i>	<i>HK\$</i>
Interest on bank loans and overdrafts	<u>922,853</u>	<u>4,918,544</u>

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11. TAX

Hong Kong profits tax has been provided at the rate of 16% on the estimated assessable profits arising in Hong Kong during the year ended 31 December 2001.

No Hong Kong profits tax was provided for the year ended 31 December 2000 because the Group companies either did not generate any assessable profits in Hong Kong, or had available tax losses brought forward to offset the assessable profits generated.

	Group	
	2001	2000
	HK\$	HK\$
Provision for the year	485,000	—
Share of tax attributable to jointly-controlled entities	2,622,890	31,475
Share of tax attributable to an associate	8,476	—
	<u>3,116,366</u>	<u>31,475</u>

12. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year dealt with in the financial statements of the Company was HK\$7,016,518 (2000: HK\$437,354).

13. Dividend

	2001	2000
	HK\$	HK\$
Proposed final — HK\$0.01 (2000:Nil) per ordinary share	<u>5,197,591</u>	<u>—</u>

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

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14. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$18,043,716 (2000: HK\$25,511,172) and the weighted average of 519,696,660 (2000: 519,339,454) ordinary shares in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$18,043,716 (2000: HK\$25,511,172). The weighted average number of ordinary shares used in the calculation comprises the 519,696,660 (2000: 519,339,454) ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average of 4,242,910 (2000: 457,271) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all options outstanding during the year.

15. FIXED ASSETS

Group

	Land and buildings <i>HK\$</i>	Leasehold improvements <i>HK\$</i>	Furniture, fixtures and equipment <i>HK\$</i>	Motor vehicles <i>HK\$</i>	Total <i>HK\$</i>
Cost:					
At beginning of year	4,095,000	12,329,512	26,914,214	4,520,739	47,859,465
Additions	—	1,016,213	6,607,096	—	7,623,309
Disposals	—	—	(1,275,407)	—	(1,275,407)
At 31 December 2001	4,095,000	13,345,725	32,245,903	4,520,739	54,207,367
Accumulated depreciation:					
At beginning of year	839,475	8,139,134	13,525,967	3,349,371	25,853,947
Provided during the year	122,850	3,211,343	6,113,665	388,488	9,836,346
Disposals	—	—	(1,251,314)	—	(1,251,314)
At 31 December 2001	962,325	11,350,477	18,388,318	3,737,859	34,438,979
Net book value:					
At 31 December 2001	3,132,675	1,995,248	13,857,585	782,880	19,768,388
At 31 December 2000	3,255,525	4,190,378	13,388,247	1,171,368	22,005,518

The land and buildings are held under long term leases, are situated in Hong Kong and are pledged to banks to secure the Group's long term bank loans (note 29).

NOTES TO FINANCIAL STATEMENTS

31 December 2001

16. STOCK AND FUTURES EXCHANGE TRADING RIGHTS

	Group <i>HK\$</i>
Cost:	
At beginning of year	4,300,002
Additions	<u>3,711,294</u>
At end of year	<u>8,011,296</u>
Accumulated amortisation:	
At beginning of year	430,000
Provided during the year	<u>842,366</u>
At end of year	<u>1,272,366</u>
Net book value:	
At 31 December 2001	<u>6,738,930</u>
At 31 December 2000	<u>3,870,002</u>

17. OTHER ASSETS

	Group	
	2001 <i>HK\$</i>	2000 <i>HK\$</i>
Club debentures	2,470,000	2,470,000
Prepayments and deposits	<u>3,689,875</u>	<u>3,589,875</u>
	<u>6,159,875</u>	<u>6,059,875</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2001

18. INTERESTS IN SUBSIDIARIES

	Company	
	2001 HK\$	2000 HK\$
Unlisted shares, at cost	90,910,146	90,910,146
Due from subsidiaries	<u>788,155,821</u>	<u>729,155,287</u>
	879,065,967	820,065,433
Due to subsidiaries	<u>(16,959,283)</u>	<u>(4,855,000)</u>
	862,106,684	815,210,433
Provision for impairment	<u>(74,997,554)</u>	<u>(74,997,554)</u>
	<u>787,109,130</u>	<u>740,212,879</u>

The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment, except for amounts due from subsidiaries of HK\$224,885,263 (2000: HK\$367,326,325) which bore interest ranging from deposit saving rate to the prime rate plus 2.75% (2000: deposit saving rate to the prime rate plus 2.5%) per annum.

All of the principal subsidiaries, unless otherwise indicated, are incorporated and operating in Hong Kong. Details of the Company's principal subsidiaries at the balance sheet date are as follows:

Name	Nominal value of issued and fully paid share capital	Percentage of ordinary shares held		Principal activities
		Direct	Indirect	
Shenyin Wanguo Securities (H.K.) Limited	300,000 ordinary shares of HK\$100 each	100	—	Securities broking and margin financing
Shenyin Wanguo Finance (H.K.) Limited	25,000,000 ordinary shares of HK\$1 each	100	—	Provision of financial services
Shenyin Wanguo Capital (H.K.) Limited	600,000 ordinary shares of HK\$10 each	100	—	Corporate finance

NOTES TO FINANCIAL STATEMENTS

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18. INTERESTS IN SUBSIDIARIES (Continued)

Name	Nominal value of issued and fully paid share capital	Percentage of ordinary shares held		Principal activities
		Direct	Indirect	
Shenyin Wanguo Futures (H.K.) Limited	8,000,000 ordinary shares of HK\$1 each	100	—	Futures and options dealing
Shenyin Wanguo Brokerage (H.K.) Limited	5,000,000 ordinary shares of HK\$1 each	100	—	Securities broking
Shenyin Wanguo Research (H.K.) Limited	300,000 ordinary shares of HK\$1 each	100	—	Provision of securities research services
Shenyin Wanguo Enterprises (H.K.) Limited	15,000,000 ordinary shares of HK\$1 each	100	—	Provision of management and treasury services
Sparkle Well Limited	2 ordinary shares of HK\$1 each	100	—	Property holding
Wealthy Limited	2 ordinary shares of HK\$1 each	100	—	Property holding
Shenyin Wanguo Strategic Investments (H.K.) Limited	10,000 ordinary shares of HK\$1 each	100	—	Securities trading and investment
First Million Holdings Limited*	1 ordinary share of US\$1	100	—	Securities trading and investment
Shenyin Wanguo Foods (H.K.) Limited	100 ordinary shares of HK\$1 each	—	100	Investment holding

NOTES TO FINANCIAL STATEMENTS

31 December 2001

18. INTERESTS IN SUBSIDIARIES (Continued)

Name	Nominal value of issued and fully paid share capital	Percentage of ordinary shares held		Principal activities
		Direct	Indirect	
Shenyin Wanguo Trading (H.K.) Limited	375,000 ordinary shares of HK\$1 each	100	—	Share trading and investment holding
Shenyin Wanguo (Holdings) Limited	2 ordinary shares of HK\$1 each	100	—	Investment holding
Shenyin Wanguo Nominees (H.K.) Limited	1,000 ordinary shares of HK\$1 each	—	100	Provision of share custodian and nominee services
Shenyin Wanguo Online Limited	1,000 ordinary shares of HK\$1 each	100	—	Provision of internet trading
Crux Assets Limited*	1 ordinary share of US\$1	—	100	Investment holding

* Incorporated in the British Virgin Islands

The above table lists the 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

19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	2001	Group
	HK\$	2000
		HK\$
Share of net assets	<u>195,841,893</u>	<u>213,815,133</u>

Particulars of the jointly-controlled entities are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of			Principal activities
			Ownership interest	Voting interest	Profit sharing	
The New China Hong Kong Highway Ltd. ("NCHK")	Corporate	British Virgin Islands	26.19	26.19	26.19	Investment holding
Sichuan Chengmian Expressway Co. Ltd. ("SCECL")	Corporate	PRC	15.71	15.71	26.19	Highway operations

All of the above investments in jointly-controlled entities are indirectly held by the Company.

NCHK holds a 60% equity interest in SCECL. In accordance with the terms of the revised joint venture agreement of SCECL date 18 March 1994 and based on the financial statements of the joint venture prepared under the generally accepted accounting principles in PRC, NCHK is entitled to all of the net profits generated by SCECL from the date of registration of SCECL to 8 November 2003. Thereafter, NCHK is entitled to 60% and 50% of the net profits generated by SCECL for the periods from 9 November 2003 to 8 November 2008 and from 9 November 2008 to 8 November 2018, respectively. For the period from 9 November 2018 to the end of the joint venture period, NCHK is entitled to 40% of the net profits generated by SCECL.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

Extracts of the financial information of the jointly-controlled entities are as follows:

	NCHK and its subsidiary	
	2001	2000
	HK\$'000	HK\$'000
Turnover	169,794	151,143
Profit before tax	65,305	73,705
Fixed assets	1,624,406	1,650,490
Current assets	100,355	115,961
Current liabilities	(66,132)	(32,792)
Long term liabilities	(15,729)	(45,460)
Minority interests	(895,126)	(871,799)
Net assets	747,774	816,400

20. INTEREST IN AN ASSOCIATE

	Group	
	2001	2000
	HK\$	HK\$
Share of net assets	502,987	—

Particulars of the associate acquired during the year are as follows:

Name	Business structure	Place of incorporation and operations	Percentage of ownership interest attributable to the Group	Principal activities
Shenyin Wanguo Asset Management (Asia) Limited (formerly known as Shenyin Wanguo Van Eck Asset Management (Asia) Limited)	Corporate	Hong Kong	49	Provision of asset management services

NOTES TO FINANCIAL STATEMENTS

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21. GOODWILL

	Group <i>HK\$</i>
Cost:	
At beginning and end of year	<u>64,658,842</u>
Accumulated amortisation:	
At beginning of year	1,700,622
Provided for the year	<u>1,339,656</u>
At end of year	<u>3,040,278</u>
Net book values:	
At 31 December 2001	<u>61,618,564</u>
At 31 December 2000	<u>62,958,220</u>

22. LONG TERM RECEIVABLE

	Group	
	2001 <i>HK\$</i>	2000 <i>HK\$</i>
Amounts receivable	292,767,388	292,767,388
Less: Portion classified as current and included in advances to customers	(6,824,089)	<u>(6,824,089)</u>
Long term receivable	<u>285,943,299</u>	<u>285,943,299</u>

At 31 December 2001, the Group had amounts receivable from Century City International Holdings Limited ("CCIH") and its subsidiaries (collectively the "CC Group") in the aggregate amount of HK\$292,767,388 (2000: HK\$292,767,388), representing approximately 46% (2000: 47%) of the Group's net assets at the balance sheet date. The aggregate balance comprises receivables arising from securities and options trading, a claim under an indemnity in relation to the acquisition of the interests in jointly-controlled entities and accrued interest income. Apart from a balance of HK\$6.8 million (2000: HK\$6.8 million) arising from securities trading and accrued interest income which is adequately secured by marketable securities and classified as a current asset, all of the remaining balance of HK\$286 million is guaranteed by CCIH and is due for repayment.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

22. LONG TERM RECEIVABLE (Continued)

In view of the recently reported developments and financial position of the CC Group, the directors consider that the receivable of HK\$286 million is unlikely to be recovered within the next twelve months and, accordingly, it has been classified as a long term receivable. Notwithstanding the uncertainty surrounding the full recovery of this receivable, no provision against it has been made in the preparation of these financial statements. The amounts receivable from the CC Group bear interest ranging from prime rate plus 3.05% to 4% per annum.

23. INVESTMENTS

	Group	
	2001 HK\$	2000 HK\$
Long term investments		
Listed equity investments in Hong Kong at fair value	<u>12,732,505</u>	<u>69,134,335</u>
Short term investments		

	Group		Company	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Listed equity trading securities at market value:				
Hong Kong	23,488,803	31,719,652	—	—
Overseas	14,010,918	1,092,347	—	—
	<u>37,499,721</u>	<u>32,811,999</u>	<u>—</u>	<u>—</u>
Unlisted equity investment at fair value	—	150,000	—	150,000
	<u>37,499,721</u>	<u>32,961,999</u>	<u>—</u>	<u>150,000</u>

The market value of the Group's long term listed equity investments at the date of approval of these financial statements was approximately HK\$9,523,563 (2000: HK\$12,846,316)

Certain listed investments of the Group have been pledged to secure the Group's bank and other borrowings (note 29).

NOTES TO FINANCIAL STATEMENTS

31 December 2001

24. INTEREST IN AN UNCONSOLIDATED SUBSIDIARY

	Group	
	2001 HK\$	2000 HK\$
Unlisted shares, at fair value	<u>30,499,674</u>	<u>30,499,674</u>

Particulars of the unconsolidated subsidiary are as follows:

Name	Place of incorporation and operations	Nominal value of issued capital	Percentage of ordinary shares indirectly held	Principal activities
Jammy Chai (Guangzhou) Food Company Limited	PRC	RMB52,232,860	50.2	Production of non-staple food stuffs and flavourings

The Group's share of the profit of the unconsolidated subsidiary for the year ended 31 December 2001 and the retained profits at the end of the year, not dealt with in the Group's financial statements, amounted to HK\$4,661,805 and HK\$5,690,247, respectively (2000: HK\$7,126,663 and HK\$8,114,934, respectively).

Subsequent to the balance sheet date, on 28 February 2002, a wholly-owned subsidiary of the Company entered into a conditional sale and purchase agreement to dispose of its entire interests in two subsidiaries, of which the interest in an unconsolidated subsidiary is the major asset, at a consideration of HK\$50,000,000 (note 37).

25. ACCOUNTS RECEIVABLE

	Group	
	2001 HK\$	2000 HK\$
Accounts receivable	164,783,038	92,685,901
Less: Provisions for doubtful debts — specific	<u>(14,499,445)</u>	<u>(14,499,445)</u>
	<u>150,283,593</u>	<u>78,186,456</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2001

25. ACCOUNTS RECEIVABLE (Continued)

An aged analysis of accounts receivable is as follows:

	2001 HK\$	2000 HK\$
Current to 30 days	131,671,671	78,329,084
31 – 60 days	5,402,814	62,634
61 – 90 days	422,216	102,357
Over 90 days	27,286,337	14,191,826
	<u>164,783,038</u>	<u>92,685,901</u>

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

26. LOANS AND ADVANCES

	Group	
	2001 HK\$	2000 HK\$
Loans and advances to customers:		
Secured	217,010,635	544,707,810
Unsecured	26,018,313	120,660,897
Interest receivable	5,485,727	12,088,941
	248,514,675	677,457,648
Less: Provision for doubtful debts		
Specific	(12,908,116)	(228,662,899)
General	(64,908)	(64,908)
	<u>235,541,651</u>	<u>448,729,841</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2001

26. LOANS AND ADVANCES (Continued)

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

	2001 HK\$	2000 <i>HK\$</i>
Repayable on demand	173,940,132	421,788,763
Within three months	20,000,000	—
One year or less, but over three months	21,756,585	10,108,408
Undated	32,817,958	245,560,477
	<u>248,514,675</u>	<u>677,457,648</u>

As at 31 December 2001, the total market value of securities pledged by customers as collateral in respect of loans to customers was HK\$757,286,971 (2000: HK\$1,472,317,067).

27. CASH AND CASH EQUIVALENTS

	Group		Company	
	2001 HK\$	2000 <i>HK\$</i>	2001 HK\$	2000 <i>HK\$</i>
Bank balances	51,466,005	64,317,652	739,171	411,602
Time deposits with original maturity of less than three months when acquired	23,006,597	16,883,837	—	—
	<u>74,472,602</u>	<u>81,201,489</u>	<u>739,171</u>	<u>411,602</u>

28. ACCOUNTS PAYABLE

An aged analysis of accounts payable is as follows:

	Group	
	2001 HK\$	2000 <i>HK\$</i>
Current to 30 days	<u>481,822,403</u>	<u>178,562,508</u>

An amount of client account payable balances of HK\$114,711,823 as at 31 December 2000, has been reclassified from other payables to accounts payable in the 2000 comparative amounts on this year's consolidated balance sheet for a clearer presentation of the Group's financial position.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

29. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Group		Company	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Bank overdrafts:				
Secured	23,052,973	110,014,705	—	—
Unsecured	15,060,725	9,668,478	—	505,837
Bank loans:				
Secured	46,995,640	121,966,274	—	—
Other loans:				
Secured	50,000,000	160,907,555	—	—
Unsecured	180,000,000	130,000,000	180,000,000	130,000,000
Loan from a related party (note 36)	20,000,000	20,000,000	20,000,000	20,000,000
	<u>335,109,338</u>	<u>552,557,012</u>	<u>200,000,000</u>	<u>150,505,837</u>

The maturities of the Group's bank and other borrowings are analysed as follows:

	Group		Company	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Bank overdrafts repayable within one year or on demand	38,113,698	119,683,183	—	505,837
Bank loans repayable:				
Within one year or on demand	45,253,979	119,942,941	—	—
In the second year	263,106	199,788	—	—
In the third to fifth years, inclusive	844,072	749,089	—	—
Beyond five years	634,483	1,074,456	—	—
	46,995,640	121,966,274	—	—
Other loans repayable:				
Within one year or on demand	106,000,000	310,907,555	70,000,000	150,000,000
In the third to fifth years, inclusive	144,000,000	—	130,000,000	—
	250,000,000	310,907,555	200,000,000	150,000,000
	335,109,338	552,557,012	200,000,000	150,505,837
Portion classified as current liabilities	(189,367,677)	(550,533,679)	(70,000,000)	(150,505,837)
Long term portion	145,741,661	2,023,333	130,000,000	—

NOTES TO FINANCIAL STATEMENTS

31 December 2001

29. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

The secured bank loans, bank overdrafts and other loans are secured by the pledge of certain listed investments of the Group (note 23) and listed shares held by the Group as security for advances to customers, and are guaranteed by the Company.

The loan from a related party is unsecured, repayable on 31 March 2002 and bears interest at the prime rate (2000: the prime rate).

The bank loans of HK\$1,995,640 (2000: HK\$2,202,400) are secured by the pledge of the land and buildings of the Group (note 15).

30. DEFERRED TAX

No deferred tax has been provided as there were no significant timing differences at the balance sheet date (2000: Nil).

The principal components of the Group's unprovided deferred tax asset calculated at 16% (2000: 16%) are as follows:

	2001 HK\$	2000 HK\$
Tax losses	29,963,820	37,412,002
Accelerated depreciation allowances	688,939	(1,077,722)
	<u>30,652,759</u>	<u>36,334,280</u>

31. ISSUED CAPITAL

Shares	Company	
	Number of ordinary shares of HK\$0.50 each	HK\$
Authorised	2,000,000,000	1,000,000,000
Issued and fully paid:		
At 1 January 2000	518,159,126	259,079,563
Issue of 1,200,000 shares on exercise of options	1,200,000	600,000
At 31 December 2000 and 1 January 2001	519,359,126	259,679,563
Issue of 400,000 shares on exercise of options	400,000	200,000
At 31 December 2001	<u>519,759,126</u>	<u>259,879,563</u>

31. ISSUED CAPITAL *(Continued)*

Share options

Under a share option scheme (the "Scheme") adopted by the shareholders at the Company's extraordinary meeting on 12 December 1992, the directors may, at any time within 10 years from 12 December 1992, grant options to any employees, including directors, to subscribe for shares in the Company. The maximum number of share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The offer of a grant of share options may be accepted within 28 days from the date of the offer with the payment of HK\$1.00 being consideration payable by the grantee to the Company. The exercise period of the share options granted is determinable by the directors, and in any event, commences on the expiry of one month after the share options are accepted (the "Commencement Date") and ends on the fifth anniversary of the Commencement Date or the expiry date of the Scheme, whichever is earlier.

On 18 October 1996, a total of 14,600,000 share options, which potentially represented 4.38% of the then issued share capital of the Company, were granted to certain senior executives, including a director of the Company, at an exercise price of HK\$0.65 per share which was 20% below the average closing price of the Company's shares quoted on The Stock Exchange of Hong Kong Limited for the five trading days immediately preceding the date on which the options were offered. These options can be exercised within five years from dates commencing between 4 December 1996 and 28 December 1996.

As a result of the rights issue completed on 13 January 1997, the exercise price of the share options was adjusted to HK\$0.60 per share in accordance with the terms of the Scheme.

On 1 June 2000, 11,000,000 share options were granted to a director of the Company at an exercise price of HK\$0.50 per share. These options are divided into three blocks and can be exercised commencing from 1 July 2001, 1 December 2001 and 1 June 2002, respectively, to 11 December 2002.

14,200,000 share options were exercised in prior years since the adoption of the Scheme. During the year ended 31 December 2001, a further 400,000 options were exercised. At the balance sheet date, the Company had 11,000,000 outstanding options entitling the holder, who is a director of the Company, to subscribe in cash at any time during the exercise period. The exercise in full of such options would, under the present capital structure of the Company, result in the issue of 11,000,000 additional ordinary shares for aggregate proceeds, before the related issue expenses, of HK\$5,500,000.

NOTES TO FINANCIAL STATEMENTS

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32. RESERVES

	Share premium account HK\$	Capital reserve HK\$	General reserve HK\$	Exchange fluctuation reserve HK\$	Retained profits HK\$	Total HK\$
Group						
At 1 January 2000	314,579,683	15,043	138,611	(134,837)	25,038,920	339,637,420
Issue of shares	120,000	—	—	—	—	120,000
Exchange realignments	—	—	—	134,837	—	134,837
Net profit for the year	—	—	—	—	25,511,172	25,511,172
At 31 December 2000 and 1 January 2001	314,699,683	15,043	138,611	—	50,550,092	365,403,429
Issue of shares	40,000	—	—	—	—	40,000
Net profit for the year	—	—	—	—	18,043,716	18,043,716
Proposed final dividend	—	—	—	—	(5,197,591)	(5,197,591)
At 31 December 2001	314,739,683	15,043	138,611	—	63,396,217	378,289,554
Reserves retained by:						
Company and subsidiaries	314,739,683	15,043	138,611	—	63,380,799	378,274,136
An associate	—	—	—	—	15,418	15,418
Jointly-controlled entities	—	—	—	—	—	—
At 31 December 2001	314,739,683	15,043	138,611	—	63,396,217	378,289,554
Company and subsidiaries	314,699,683	15,043	138,611	—	41,535,860	356,389,197
Jointly-controlled entities	—	—	—	—	9,014,232	9,014,232
At 31 December 2000	314,699,683	15,043	138,611	—	50,550,092	365,403,429
Company						
At 1 January 2000	314,579,683	—	656,293	—	3,627,826	318,863,802
Issue of shares	120,000	—	—	—	—	120,000
Net profit for the year	—	—	—	—	437,354	437,354
At 31 December 2000 and 1 January 2001	314,699,683	—	656,293	—	4,065,180	319,421,156
Issue of shares	40,000	—	—	—	—	40,000
Net profit for the year	—	—	—	—	7,016,518	7,016,518
Proposed final dividend	—	—	—	—	(5,197,591)	(5,197,591)
At 31 December 2001	314,739,683	—	656,293	—	5,884,107	321,280,083

The general reserves of the Group and the Company represent prior year appropriations of profits, which are distributable.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2001 HK\$	2000 HK\$
Profit from operating activities	4,935,291	10,986,003
Write-back of prior years' accrued interest expenses on settlement of other loans	(51,795,688)	—
Impairment provisions on long term investments	56,401,830	—
Provision for bad and doubtful debts	1,500,000	1,500,000
Depreciation	9,836,346	7,320,261
Amortisation	2,182,022	1,147,272
Loss/(gain) on disposal of a subsidiary	(495,151)	387,486
Loss on disposal of fixed assets	19,695	2,518
Decrease/(increase) in short term investments	(4,537,722)	19,062,353
Decrease/(increase) in accounts receivable	(72,097,137)	241,890,542
Decrease/(increase) in loans and advances	211,688,190	(115,564,229)
Decrease/(increase) in deposits, prepayments and other receivables	7,855,694	(5,049,851)
Increase in bank balances held on behalf of customers	(249,803,164)	(17,764,938)
Increase/(decrease) in accounts payable	303,259,895	(108,566,563)
Increase/(decrease) in other payables and accruals	(29,145,314)	38,844,359
Net cash inflow from operating activities	<u>189,804,787</u>	<u>74,195,213</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2001

33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing during the year

	Issued capital (including share premium account) HK\$	Bank loans HK\$	Other loans HK\$	Loan from a related party HK\$	Minority interests HK\$
Balance at 1 January 2000	573,659,246	2,365,442	331,984,486	20,000,000	2,514,670
Net cash inflow/(outflow) from financing	720,000	(163,042)	(41,076,931)	—	—
Share of loss for the year	—	—	—	—	(171,783)
Disposal of a subsidiary	—	—	—	—	(2,342,887)
Balance at 31 December 2000 and 1 January 2001	574,379,246	2,202,400	290,907,555	20,000,000	—
Net cash inflow/(outflow) from financing	240,000	(206,760)	(60,907,555)	—	—
Balance at 31 December 2001	574,619,246	1,995,640	230,000,000	20,000,000	—

NOTES TO FINANCIAL STATEMENTS

31 December 2001

33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(c) Disposal of a subsidiary

	2001 HK\$	2000 HK\$
Net assets disposed of:		
Cash and bank balances	—	138,690
Fixed assets	—	1,671,174
Short term investments	—	2,407,945
Deposit, prepayment and other receivables	345,000	1,374,821
Other payables and accruals	—	(282,045)
Due from/(to) a Group company	(359,498)	13,863
Minority interests	—	(2,342,887)
	(14,498)	2,981,561
Exchange reserve realised on disposal	—	134,837
Gain/(loss) on disposal	495,151	(387,486)
	480,653	2,728,912
Satisfied by:		
Amount due from/(to) a Group company	(359,498)	13,863
Cash	840,151	2,715,049
	480,653	2,728,912

Analysis of net inflow of cash and cash equivalents in respect of the disposal of a subsidiary:

	2001 HK\$	2000 HK\$
Cash and bank balance disposed of	—	(138,690)
Cash consideration	840,151	2,715,049
Net inflow of cash and cash equivalents in respect of disposal of a subsidiary	840,151	2,576,359

The subsidiary disposed of during the year contributed HK\$840,151 (2000: HK\$2,576,359) in respect of investing activities and had no significant impact in respect of net operating cash flows, or on the cash flows in respect of returns on investments and servicing of finance, financing activities and tax.

The results of the subsidiary disposed of during the year had no significant impact on the consolidated turnover and profit after tax and minority interests for the current year.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

34. CONTINGENT LIABILITIES

At the balance sheet date, the Group and the Company had the following contingent liabilities:

	Group		Company	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Guarantees in respect of bank loans and other facilities granted to subsidiaries	—	—	532,570,000	466,396,000

As at 31 December 2001, the bank facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK\$85,108,000 (2000: HK\$351,675,000).

35. COMMITMENTS

(a) Capital commitments

	Group	
	2001 HK\$	2000 HK\$
Contracted, but not provided for	1,203,585	633,687

(b) Operating lease commitments as a lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to four years.

At 31 December 2001, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2001 HK\$	2000 HK\$ (restated)
Within one year	4,195,377	6,885,211
In the second to fifth years, inclusive	1,125,026	3,018,711
	5,320,403	9,903,922

At the balance sheet date, the Company did not have any significant commitments.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

35. COMMITMENTS *(Continued)*

SSAP 14 (Revised) 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's comparative amounts for operating leases as lessee in note (b) above have been restated to accord with the current year's presentation.

36. CONNECTED AND RELATED PARTY TRANSACTIONS

The Group entered the following material connected and related party transactions during the year.

- (i) On 15 September 2000, the Group agreed to acquire from Shanghai Shenyin Securities (H.K.) Limited, a related company of the Company, its securities dealing, trading, underwriting, advisory and margin financing business (including a Stock Exchange trading right attaching thereto) and certain assets in relation to such business for a cash consideration of HK\$3,785,000, based on an internal valuation of the business prepared by the directors. The acquisition was completed on 10 January 2001 when the transfer of the Stock Exchange trading right was approved by The Stock Exchange of Hong Kong Limited.
- (ii) The Group had an outstanding loan advanced from the substantial shareholder of the Company, Venture-Some Investments Limited, of HK\$20,000,000 (2000: HK\$20,000,000) as further detailed in note 29 to the financial statements.
- (iii) The Group paid research fee of HK\$795,000 (2000: Nil) to the substantial shareholder of the Company, Shenyin & Wanguo Securities Co., Ltd.

37. POST BALANCE SHEET EVENTS

- (a) Subsequent to the balance sheet date, on 28 February 2002, a wholly-owned subsidiary of the Company entered into a conditional sale and purchase agreement to dispose of its entire interests in two subsidiaries, the major interest of which is an unconsolidated subsidiary, and to assign the aggregate shareholders' loans granted to the subsidiaries amounting up to the date of completion of the agreement to the acquirer, at a total consideration of HK\$50,000,000 (note 24), resulting in a net gain on disposal of HK\$19,500,000, before related expenses. The completion of this disposal will take place upon the completion of the due diligence to be carried out by the acquirer and the approval of the relevant regulatory authorities, if necessary, on or before 30 June 2002 or such later day as agreed by the acquirer and the acquiree.
- (b) Subsequent to the balance sheet date, on 7 March 2002, following discussions in November 2001, the Group entered into a formal settlement agreement to issue a 3-year 3% convertible note (extendable for another 2 years subject to certain conditions) in a principal amount of HK\$132,000,000 with a total interest of approximately HK\$12,000,000 to be paid by 7 March 2005, and pay HK\$36,000,000 in cash on that date as full and final settlement of the outstanding indebtedness owing by the Group to an independent third party with an aggregate principal amount of HK\$180,000,000, representing unsecured other loans of HK\$130,000,000 and a secured other loan of HK\$50,000,000 included in note 29, plus accrued interest thereon.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

37. POST BALANCE SHEET EVENTS *(Continued)*

As a result of this agreement, all prior years' accrued interest aggregating HK\$51,795,688 was written back in the current year's consolidated profit and loss account, and part of the original loan amount of HK\$12,000,000 will be accounted for as deferred income to offset against future interest element of the 3-year 3% convertible note.

38. COMPARATIVE AMOUNTS

As 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 comparative amounts have been reclassified to conform with the current year's presentation.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 17 April 2002.