# Notes to the Financial Statements

## 1. CORPORATE INFORMATION

The Company and its subsidiaries are principally engaged in investment holding, the provision of mortgage finance and other related services and treasury investments.

In the opinion of the Directors, the ultimate holding company of the Company is Lippo Cayman 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 are effective for the first time for the current year's financial statements:

| | | |
|---|---|---|
| SSAP 1 (Revised) | : | "Presentation of financial statements" |
| SSAP 11 (Revised) | : | "Foreign currency translation" |
| SSAP 15 (Revised) | : | "Cash flow statements" |
| SSAP 33 | : | "Discontinuing operations" |
| SSAP 34 | : | "Employee benefits" |

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

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated summary statement of changes in equity is now presented on page 16 of the financial statements.

SSAP 15 (Revised) prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than five headings previously required. The format of the consolidated cash flow statement set out on page 17 of the financial statements has been revised in accordance with the new requirements.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**(a) 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 Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of certain investments as further explained below.

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

### (b) Basis of consolidation

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

### (c) 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.

Interests in subsidiaries are stated in the Company's balance sheet at cost less any impairment losses.

### (d) 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 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.

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), 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.

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

### (e) 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 the asset has 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 asset, the expenditure is capitalised as an additional cost of that asset.

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.

Depreciation of fixed assets is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rate used for this purpose is $33^{1}/_{3}$ per cent.

### (f) Investment securities

Investment securities are securities which are intended to be held on a continuing strategic or long term purpose. Investment securities are included in the balance sheet at cost less provisions for impairment losses, on an individual investment basis. When such impairment losses have occurred, the carrying amounts of the securities are reduced to their fair values, as determined by the Directors and the amounts of the impairments are charged to the profit and loss account for the period in which they arise. When the circumstances and events which led to the impairment losses cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amounts of the impairments previously charged are credited to the profit and loss account to the extent of the amounts previously charged.

### (g) Held-to-maturity securities

Held-to-maturity securities are investments in dated debt securities which the Group has the expressed intention and ability to hold to maturity, and are stated at cost adjusted for the amortisation of premiums or discounts arising on acquisition, less any provisions for impairment loss which reflect their credit risk.

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

### (h) Other investments in securities

Other investments in securities are those securities which are not classified as investment securities nor as held-to-maturity securities, and are stated at fair value at the balance sheet date. Unrealised holding gains or losses arising from changes in fair value of securities are dealt with in the profit and loss account in the period in which they arise.

### (i) Recognition of revenue

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:

(i) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and

(ii) dealings in securities and disposals of investments, on the transaction dates when the relevant contract notes are exchanged.

### (j) Mortgage loans

Mortgage loans are reported on the balance sheet at the total of principal amount outstanding and accrued interest receivable net of provisions for doubtful debts.

### (k) Provisions for doubtful debts

A provision for doubtful debts is made when the Directors consider the recoverability of mortgage loan is in doubt. In addition, an amount has been set aside as a general provision. These provisions are deducted from "Mortgage Loans" on the balance sheet.

### (l) 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.

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

**(m) Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

**(n) Foreign currency transactions**

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

**(o) 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.

**(p) Cash and cash equivalents**

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

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

**(q) 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 or 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.

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

### (r) Dividends

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

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

## 4. SEGMENT INFORMATION

Segment information is presented by way of business segment as the primary segment. No analysis of geographical segment which is regarded as the secondary segment is presented as less than 10 per cent. of the Group's revenue, results and assets are attributable to locations outside Hong Kong.

The Group's operating businesses are structured and managed separately, according to the nature of their operations. The Group's business segments represent different strategic business units which are subject to risks and returns that are different from those of the other business segments. Description of the business segments is as follows:

(a) the mortgage finance segment engages in the provision of mortgage finance and other related services; and

(b) the treasury investments segment includes securities trading and interest income on bank deposits and held-to-maturity securities.

During the current and prior years, there were no intersegment transactions.

## 4. SEGMENT INFORMATION *(Continued)*

An analysis of the Group's turnover and results by business segment is as follows:

| | 2002 | | |
|---|---|---|---|
| | Mortgage finance HK$'000 | Treasury investments HK$'000 | Total HK$'000 |
| Turnover | 1,691 | 88,785 | 90,476 |
| Other revenue | 991 | — | 991 |
| | 2,682 | 88,785 | 91,467 |
| Segment results | 3,048 | (14,089) | (11,041) |
| Unallocated corporate expenses | | | (5,292) |
| Loss before tax | | | (16,333) |
| Tax | | | — |
| Net loss from ordinary activities attributable to shareholders | | | (16,333) |
| Segment assets | 10,917 | 196,064 | 206,981 |
| Unallocated assets | | | 726 |
| Total assets | | | 207,707 |
| Segment liabilities | 943 | 73 | 1,016 |
| Unallocated liabilities | | | 614 |
| Total liabilities | | | 1,630 |
| Other segment information | | | |
| Non-cash expenses other than depreciation | — | 17,286 | 17,286 |

## 4. SEGMENT INFORMATION *(Continued)*

| | Mortgage finance HK$'000 | 2001 Treasury investments HK$'000 | Total HK$'000 |
|---|---|---|---|
| Turnover | 3,493 | 70,661 | 74,154 |
| Other revenue | 529 | — | 529 |
| | 4,022 | 70,661 | 74,683 |
| Segment results | 3,814 | (32,953) | (29,139) |
| Unallocated corporate expenses | | | (4,069) |
| Loss before tax | | | (33,208) |
| Tax | | | 1,092 |
| Net loss from ordinary activities attributable to shareholders | | | (32,116) |
| Segment assets | 20,736 | 204,147 | 224,883 |
| Unallocated assets | | | 925 |
| Total assets | | | 225,808 |
| Segment liabilities | 2,409 | 363 | 2,772 |
| Unallocated liabilities | | | 626 |
| Total liabilities | | | 3,398 |
| Other segment information | | | |
| Non-cash expenses other than depreciation | 208 | 40,650 | 40,858 |

No capital expenditure and depreciation for the above segments are presented as they are related to the corporate office.

## 5. TURNOVER

Turnover represents interest income on mortgage loans and gross income on treasury investments which includes sales proceeds from securities trading and interest income on bank deposits and held-to-maturity securities.

An analysis of the turnover of the Group by principal activity is as follows:

| | Group | |
|---|---|---|
| | **2002** | 2001 |
| | ***HK$'000*** | *HK$'000* |
| Mortgage finance: | | |
| Interest on mortgage loans | **1,691** | 3,493 |
| Treasury investments: | | |
| Interest on bank deposits | **2,597** | 7,143 |
| Sales of other investments in securities | **84,302** | 62,283 |
| Interest on held-to-maturity securities | **1,886** | 1,024 |
| Other investment income | **—** | 211 |
| | **90,476** | 74,154 |

## 6. LOSS BEFORE TAX

Loss before tax is arrived at after crediting/(charging):

| | Group | |
|---|---|---|
| | **2002** | 2001 |
| | ***HK$'000*** | *HK$'000* |
| Staff costs (includes directors' remuneration disclosed in Note 7) | | |
| Wages and salaries | **(1,826)** | (1,204) |
| Retirement benefit costs — Note 8 | **(54)** | (42) |
| Total staff costs | **(1,880)** | (1,246) |
| Depreciation | **(65)** | (62) |
| Auditors' remuneration | **(160)** | (150) |
| Minimum lease payments under operating leases in respect of land and buildings | **(1,295)** | (1,187) |
| Exchange gains/(losses), net | **103** | (45) |
| Net realised loss on disposal of other investments in listed securities | **(1,090)** | (318) |

## 7. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

Directors' emoluments disclosed pursuant to Section 161 of the Companies Ordinance are as follows:

| | Group | |
|---|---|---|
| | **2002** | 2001 |
| | ***HK$'000*** | *HK$'000* |
| Executive Directors: | | |
| Directors' fees | **155** | 155 |
| Non-executive Directors: | | |
| Directors' fees | **212** | 59 |
| | **367** | 214 |

The number of Directors whose emoluments fell within the following band is as follows:

| | Group | |
|---|---|---|
| | **2002** | 2001 |
| | **Number of** | Number of |
| Emoluments band | **Directors** | Directors |
| Nil — HK$1,000,000 | **8** | 8 |

Emoluments paid to independent non-executive Directors amounted to HK$212,000 during the year (2001 — HK$59,000).

There were no arrangements under which a Director waived or agreed to waive any emoluments.

The five highest paid individuals include one (2001 — one) Director, details of whose emoluments are set out above. The emoluments of the remaining four (2001 — four) non-directors disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited are analysed by amount and designated band as set out below.

## 7. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS *(Continued)*

| | Group | |
|---|---|---|
| | **2002** | 2001 |
| | ***HK$'000*** | *HK$'000* |
| Basic salaries, allowances and benefits in kind | **1,043** | 923 |
| Retirement benefit costs | **45** | 37 |
| | **1,088** | 960 |

| | Group | |
|---|---|---|
| | **2002** | 2001 |
| | **Number of** | Number of |
| Emoluments band | **individuals** | individuals |
| Nil — HK$1,000,000 | **4** | 4 |

## 8. RETIREMENT BENEFIT COSTS

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the Scheme. The Scheme became effective from 1st December, 2000. Contributions are made based on a percentage of the employees' relevant income and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme except for the Group's employer voluntary contributions forfeited when the employees leave employment prior to fully vesting in such contributions, which can be used to reduce the amount of future employer contributions, in accordance with the rules of the Scheme.

During the year, no forfeited voluntary contributions were utilised to reduce the amount of employer contributions (2001 — Nil). The amount of forfeited voluntary contributions available to offset future employer contributions to the Scheme was not material at the year end. The retirement benefit costs charged to the profit and loss account represent contributions paid and payable by the Group to the Scheme and amounted to HK$54,000 (2001 — HK$42,000).

## 9. TAX

No provision for Hong Kong profits tax has been made as the Group had applied the tax loss brought forward from prior years to offset the estimated assessable profits earned during the year (2001 — Nil). The tax credit in the prior year represented overprovision for tax in prior years.

No provision for deferred tax has been made because the net effect of timing differences was not material at the balance sheet date (2001 — Nil).

## 10. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders includes the loss for the year dealt with in the financial statements of the Company amounted to HK$16,761,000 (2001 — HK$32,120,000).

## 11. LOSS PER SHARE

### (a) Basic loss per share

Basic loss per share is calculated based on (i) the net loss from ordinary activities attributable to shareholders of HK$16,333,000 (2001 — HK$32,116,000); and (ii) the number of 225,000,000 shares (2001 — 225,000,000 shares) in issue during the year.

### (b) Diluted loss per share

No diluted loss per share is presented for the years ended 31st December, 2002 and 2001 as there were no dilutive potential ordinary shares.

## 12. FIXED ASSETS

**Group**

| | Motor vehicle, furniture and equipment HK$'000 |
|---|---|
| **Cost:** | |
| At 1st January, 2002 | 279 |
| Acquisition of subsidiaries | 44 |
| Disposals of subsidiaries | (44) |
| At 31st December, 2002 | 279 |
| **Accumulated depreciation:** | |
| At 1st January, 2002 | 218 |
| Provision for the year | 65 |
| Disposals of subsidiaries | (7) |
| At 31st December, 2002 | 276 |
| **Net book value:** | |
| At 31st December, 2002 | 3 |
| At 31st December, 2001 | 61 |

## 12. FIXED ASSETS *(Continued)*

**Company**

| | Furniture and equipment HK$'000 |
|---|---|
| **Cost:** | |
| At 1st January, 2002 and 31st December, 2002 | 279 |
| **Accumulated depreciation:** | |
| At 1st January, 2002 | 218 |
| Provision for the year | 58 |
| At 31st December, 2002 | 276 |
| **Net book value:** | |
| At 31st December, 2002 | 3 |
| At 31st December, 2001 | 61 |

## 13. MORTGAGE LOANS

| | Group and Company | |
|---|---|---|
| | **2002** | 2001 |
| | ***HK$'000*** | *HK$'000* |
| Total mortgage loan balances | **11,708** | 21,873 |
| *Less:* Provision for doubtful debts — Note 14 | | |
| — General | **(514)** | (934) |
| — Specific | **(277)** | (223) |
| | **10,917** | 20,716 |
| Amounts due within one year classified as current assets | **(4,139)** | (7,570) |
| Non-current portion | **6,778** | 13,146 |

## 14. PROVISION FOR DOUBTFUL DEBTS

| | Group and Company | | |
|---|---|---|---|
| | Specific | General | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1st January, 2001 | — | 1,157 | 1,157 |
| Transfer | 223 | (223) | — |
| At 31st December, 2001 and 1st January, 2002 | 223 | 934 | 1,157 |
| Provision written back during the year | — | (366) | (366) |
| Transfer | 54 | (54) | — |
| **At 31st December, 2002** | **277** | **514** | **791** |

## 15. INVESTMENT SECURITIES

| | Group | |
|---|---|---|
| | **2002** | 2001 |
| | ***HK$'000*** | *HK$'000* |
| Unlisted equity securities, at cost | **7,798** | 3,120 |
| Provision for impairment in value | **—** | (3,120) |
| | **7,798** | — |

## 16. HELD-TO-MATURITY SECURITIES

| | Group | |
|---|---|---|
| | **2002** | 2001 |
| | ***HK$'000*** | *HK$'000* |
| Unlisted debt securities, at amortised cost | **—** | 22,194 |

As at 31st December, 2001, held-to-maturity securities represented a commercial paper in a principal amount of US$3 million acquired by the Group in the market for investment purpose. The commercial paper was issued by a fellow subsidiary of the Company in 1997, carried interest at 2.75 per cent. per annum above the London Interbank Offered Rate and was fully redeemed at par in July 2002.

## 17. OTHER INVESTMENTS IN SECURITIES

| | Group | | Company | |
|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Listed equity securities in Hong Kong, at market value | **22,252** | 12,820 | **22,252** | 12,820 |
| Unlisted investment funds, at fair value | **142** | 28,130 | **—** | — |
| | **22,394** | 40,950 | **22,252** | 12,820 |

As at 31st December, 2001, included in the investment funds was an amount of HK$3.6 million which represented an investment made by an independent fund manager on a discretionary basis in securities in a fellow subsidiary of the Company. The investment was disposed of during the year.

## 18. SHARE CAPITAL

| | Group and Company | |
|---|---|---|
| | **2002** | 2001 |
| | ***HK$'000*** | *HK$'000* |
| **Authorised:** | | |
| 300,000,000 shares of HK$1.00 each | **300,000** | 300,000 |
| **Issued and fully paid:** | | |
| 225,000,000 shares of HK$1.00 each | **225,000** | 225,000 |

## 19. RESERVES

| | Proposed dividends HK$'000 | Group Retained profits/ (Accumulated losses) HK$'000 | Total HK$'000 |
|---|---|---|---|
| At 1st January, 2001 | 45,000 | 29,526 | 74,526 |
| 2000 final dividend, declared | (4,500) | — | (4,500) |
| 2000 special dividend, declared | (40,500) | — | (40,500) |
| Loss for the year | — | (32,116) | (32,116) |
| At 31st December, 2001 and 1st January, 2002 | — | (2,590) | (2,590) |
| Loss for the year | — | (16,333) | (16,333) |
| **At 31st December, 2002** | **—** | **(18,923)** | **(18,923)** |

| | Proposed dividends HK$'000 | Company Retained profits/ (Accumulated losses) HK$'000 | Total HK$'000 |
|---|---|---|---|
| At 1st January, 2001 | 45,000 | 29,530 | 74,530 |
| 2000 final dividend, declared | (4,500) | — | (4,500) |
| 2000 special dividend, declared | (40,500) | — | (40,500) |
| Loss for the year | — | (32,120) | (32,120) |
| At 31st December, 2001 and 1st January, 2002 | — | (2,590) | (2,590) |
| Loss for the year | — | (16,761) | (16,761) |
| **At 31st December, 2002** | **—** | **(19,351)** | **(19,351)** |

## 20. INTERESTS IN SUBSIDIARIES

| | Company 2002 HK$'000 | Company 2001 HK$'000 |
|---|---|---|
| Unlisted shares, at cost | **1** | 1 |
| Due from subsidiaries | **44,271** | 76,505 |
| | **44,272** | 76,506 |
| Provisions for impairments in values | **(36,431)** | (25,192) |
| | **7,841** | 51,314 |

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

Particulars of principal subsidiaries as at 31st December, 2002 are as follows:

| Name of company | Place of incorporation and operations | Issued and fully paid ordinary share capital | Percentage of equity attributable to the Company | Percentage of equity attributable to the Group | Principal activities |
|---|---|---|---|---|---|
| Galawin Limited | British Virgin Islands/ Hong Kong | US$1 | 100 | 100 | Securities investment |
| Sunshine Asia Limited | British Virgin Islands/ Hong Kong | US$1 | 100 | 100 | Investment holding |
| AAM Investments Limited | British Virgin Islands/ Hong Kong | US$1 | — | 100 | Securities investment |
| Goldjade Investment Limited | Hong Kong | HK$2 | — | 100 | Securities investment |

The above table includes 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 all subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

## 21. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Reconciliation of loss before tax to cash generated from/(used in) operations

| | Group | |
|---|---|---|
| | | Restated |
| | **2002** | 2001 |
| | ***HK$'000*** | *HK$'000* |
| Loss before tax | **(16,333)** | (33,208) |
| Adjustments for: | | |
| Interest income | **(6,174)** | (11,660) |
| Depreciation | **65** | 62 |
| Provision for impairment in value for investment securities | **—** | 3,120 |
| Operating loss before working capital changes | **(22,442)** | (41,686) |
| Decrease in mortgage loans | **9,799** | 17,661 |
| Decrease/(Increase) in held-to-maturity securities | **22,194** | (22,194) |
| Decrease/(Increase) in other investments in securities | **18,556** | (23,174) |
| Decrease in debtors, prepayments and deposits | **1,096** | 24,868 |
| Decrease in creditors and accruals | **(1,768)** | (135) |
| Cash generated from/(used in) operations | **27,435** | (44,660) |

### (b) Acquisition of subsidiaries

| | Group | |
|---|---|---|
| | **2002** | 2001 |
| | ***HK$'000*** | *HK$'000* |
| Net assets acquired: | | |
| Fixed assets | **44** | — |
| Cash and bank balances | **366** | — |
| Debtors, prepayment and deposits | **64** | — |
| Creditors and accruals | **(15)** | — |
| Cash consideration paid | **459** | — |

## 21. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

### (b) Acquisition of subsidiaries *(Continued)*

An analysis of net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

| | Group | |
|---|---|---|
| | **2002** | 2001 |
| | ***HK$'000*** | *HK$'000* |
| Cash consideration paid | **(459)** | — |
| Cash and bank balances acquired | **366** | — |
| Net outflow of cash and cash equivalents | **(93)** | — |

### (c) Disposal of subsidiaries

| | Group | |
|---|---|---|
| | **2002** | 2001 |
| | ***HK$'000*** | *HK$'000* |
| Net assets disposed of: | | |
| Fixed assets | **37** | — |
| Cash and bank balances | **96** | — |
| Debtors, prepayment and deposits | **89** | — |
| Creditors and accruals | **(40)** | — |
| Cash consideration received | **182** | — |

An analysis of net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

| | Group | |
|---|---|---|
| | **2002** | 2001 |
| | ***HK$'000*** | *HK$'000* |
| Cash consideration received | **182** | — |
| Cash and bank balances disposed of | **(96)** | — |
| Net inflow of cash and cash equivalents | **86** | — |

## 22. COMMITMENTS

The Group leases its office property under operating lease arrangements. The term of the lease is for a period of two years. At 31st December, 2002, the Group and the Company have total future minimum lease payments under non-cancellable operating lease fall due as follows:

| | Group and Company | |
|---|---|---|
| | **2002** | 2001 |
| | ***HK$'000*** | *HK$'000* |
| Within one year | **721** | 1,295 |
| In the second to fifth years, inclusive | **724** | 108 |
| | **1,445** | 1,403 |

## 23. CONNECTED AND RELATED PARTY TRANSACTIONS

Listed out below are connected transactions disclosed in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and related party transactions disclosed in accordance with the Statement of Standard Accounting Practice 20 "Related Party Disclosures".

(a) During the period ended 17th January, 2002, the date of completion for the disposal of The Hongkong Chinese Bank, Limited ("HKCB", now renamed as CITIC Ka Wah Bank Limited) by Hongkong Chinese Limited ("HKCL"), the Group had cash balances with HKCB and received interests from HKCB. HKCB was a then wholly-owned subsidiary of HKCL which in turn is a subsidiary of Lippo China Resources Limited ("LCR"), the intermediate holding company of the Company. The Directors are of the opinion that these transactions were undertaken on terms similar to those offered to unrelated customers in the ordinary course of business of the relevant companies.

(b) During the year, the Company paid rental expenses of HK$1,295,000 (2001 — HK$1,187,000) to Prime Power Investment Limited ("Prime Power"), a wholly-owned subsidiary of LCR, in respect of office premises let to the Company.

## 23. CONNECTED AND RELATED PARTY TRANSACTIONS *(Continued)*

(c) On 16th December, 2002, a tenancy agreement ("Tenancy Agreement") was entered into between (1) Prime Power and (2) the Company, pursuant to which Prime Power agreed to let to the Company a portion of Room 2301, 23rd Floor, Tower One, Lippo Centre, 89 Queensway, Hong Kong with a gross floor area of 3,316 square feet for a term of two years from 1st February, 2003 to 31st January, 2005, both days inclusive, at a monthly rental of HK$55,709, exclusive of rates, service charges and all other outgoings, for office use. The rental was determined by reference to open market rentals.

The transactions referred to above are related party transactions and constitute connected transactions disclosed pursuant to the requirements of the Listing Rules.

## 24. 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 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.

## 25. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 26th March, 2003.