

1. CORPORATE INFORMATION

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

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

- securities trading and investment holding
- securities broking and dealing
- securities financing and direct loan
- 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 new and revised SSAPs are effective for the first time for the current year's consolidated financial statements:

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

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of these SSAPs are summarised as follows:

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated statement of changes in equity is now presented on page 25 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group's reserves note.

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

SSAP 11 prescribes the basis for the translation of foreign currency transactions in the financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associates are now translated to Hong Kong dollars at the weighted exchange rates for the year, whereas previously they were translated at the exchange rates at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements. Further details of this change are included in the accounting policy for “Foreign currencies” in note 3 to the financial statements.

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

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in the recognition of an accrual for paid holiday carried forward by the Group’s employees as at the balance sheet date. The recognition of this accrual has no significant impact on the amount reported for prior years. In addition, disclosures are now required in respect of the Company’s share option scheme, as detailed in note 34 to the financial statements. These share option scheme disclosures are similar to the Listing Rules disclosures previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of the SSAP.

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 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Joint venture companies (continued)

A joint venture company is treated as:

- (a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, 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, directly or indirectly, 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 hold the interests in 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 jointly-controlled entities 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 used for the amortisation of goodwill is 6%.

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.

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 consolidated 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 consolidated 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 consolidated 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fixed assets and depreciation (continued)

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 consolidated profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

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. Rentals payable under the operating leases are charged to the consolidated 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 the 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 (the "Stock Exchange") 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 lives of 10 years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

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

- (a) 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.

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 consolidated profit and loss account for the period in which the impairment arises.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Short term investments

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

Loans and advances

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

Interest on doubtful advances is credited to a suspense account which is netted in the consolidated 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 consolidated profit and loss account.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

A final dividend proposed by the directors is classified as a separate allocation of retained profits within the capital and reserves section of 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.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash at bank and 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.

The cash flow statement definition of cash and cash equivalents has been altered in certain respects by the adoption of SSAP 15 during the year. This has resulted in a prior year adjustment as detailed in note 36(a) to the financial statements.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

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

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

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

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associates and the cash flows of overseas subsidiaries were translated to Hong Kong dollars at the exchange rates at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements, while the adoption of the revised SSAP 15 has resulted in changes to the layout of the consolidated cash flow statement.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits

Paid leave carried forward

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

Prior to the adoption of SSAP 34 during the year, as explained in note 2 to the financial statements, the Group did not accrue for paid annual leave carried forward at the balance sheet date. This change in accounting policy has had no significant impact on the prior year financial statements.

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits 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 consolidated profit and loss account as they become payable in accordance with the rules of the MPF Scheme and the ORSO Scheme. When the contribution is over the statutory maximum requirements, the excess contribution is credited as the employer's 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 contributions 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 contributions.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits (continued)

Share options scheme

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

4. SEGMENT INFORMATION

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

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

- securities trading and investment holding
- securities broking and dealing
- securities financing and direct loan
- investment advisory services

In determining the Group's geographical segments, turnover is 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 the terms and conditions used for such similar transactions with third parties.

Notes to the Financial Statements

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		Securities financing and direct loan		Investment advisory services		Eliminated on consolidation		Total	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Segment turnover:												
External customers	150,570	243,144	50,041	77,519	37,440	43,681	9,367	4,341	-	-	247,418	368,685
Inter-segment	-	-	-	878	750	-	2,928	2,385	(3,678)	(3,263)	-	-
Total	150,570	243,144	50,041	78,397	38,190	43,681	12,295	6,726	(3,678)	(3,263)	247,418	368,685
Segment results	7,612	(64,157)	(24,586)	4,203	9,254	71,496	1,914	926	-	-	(5,806)	12,468
Unallocated expenses											(5,492)	(7,533)
Profit/(loss) from operating activities											(11,298)	4,935
Finance costs											(59)	(923)
Share of profits/(losses) of:												
Jointly-controlled entities	26,651	17,124									26,651	17,124
An associate	(24)	24									(24)	24
Profit before tax	(3,716)	(2,631)	(853)	(285)			(33)	(200)			15,270	21,160
Tax											(4,602)	(3,116)
Net profit from ordinary activities attributable to shareholders											10,668	18,044

4. SEGMENT INFORMATION (CONTINUED)

(a) Business segments (continued)

	Securities trading and investment holding		Securities broking and dealing		Securities financing and direct loan		Investment advisory services		Eliminated on consolidation		Total	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	254,185	371,988	448,418	587,551	281,012	235,800	7,694	8,666	-	-	991,309	1,204,005
Goodwill	60,199	61,619									60,199	61,619
Interests in jointly-controlled entities	173,854	195,842									173,854	195,842
Interest in an associate	-	503									-	503
Unallocated assets											15,731	16,261
Total assets	8,605	7,432	397,543	485,650	179,258	341,239	1,350	103	-	-	1,241,093	1,478,230
Segment liabilities											586,756	834,424
Unallocated liabilities											-	439
Total liabilities											586,756	834,863
Other information:												
Capital expenditure			2,735	5,464							2,735	5,464
Amortisation of trading rights			842	842							842	842
Depreciation of segment assets			5,913	3,785							5,913	3,785
Provision for bad and doubtful debts												
Impairment provisions on long term investments					119,400	1,500					119,400	1,500
Write-back of prior years' accrued interest expenses											6,286	56,402
Gain on cancellation of convertible note											12,000	51,796
											92,000	-

Notes to the Financial Statements

4. SEGMENT INFORMATION (CONTINUED)

(b) Geographical segments

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Segment turnover:		
The People's Republic of China ("PRC")		
Hong Kong	223,297	301,162
Mainland China	24,085	67,523
Others	36	-
	<u>247,418</u>	<u>368,685</u>
Segment assets:		
PRC		
Hong Kong	1,007,041	1,190,270
Mainland China	234,052	287,960
	<u>1,241,093</u>	<u>1,478,230</u>
Additions to fixed assets and intangible assets:		
PRC		
Hong Kong	4,384	11,334
	<u>4,384</u>	<u>11,334</u>

Notes to the Financial Statements

5. TURNOVER

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

	2002 HK\$	Group 2001 HK\$
Financial services:		
Sales proceeds from securities and futures contracts trading	144,168,566	235,117,740
Interest income from securities financing and direct loans	33,453,645	41,465,898
Commission and brokerage income	49,552,831	72,957,435
Rendering of services	9,867,328	7,950,715
	<u>237,042,370</u>	<u>357,491,788</u>
Others:		
Bank interest income	3,686,117	2,094,339
Dividend income from:		
Listed equity investments	1,106,887	847,306
Unlisted equity investment — an unconsolidated subsidiary	5,216,402	7,086,492
Others	366,659	1,165,573
	<u>10,376,065</u>	<u>11,193,710</u>
	<u>247,418,435</u>	<u>368,685,498</u>

6. OTHER REVENUE AND GAINS

	2002 HK\$	Group 2001 HK\$
Gain on disposal of subsidiaries and an unconsolidated subsidiary (<i>note 24</i>)	19,224,728	495,151
Exchange gains, net	366,587	556,371
Others	165,833	—
	<u>19,757,148</u>	<u>1,051,522</u>

Notes to the Financial Statements

7. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	Group	
	2002	2001
	HK\$	HK\$
Depreciation	9,703,957	9,836,346
Amortisation of goodwill	1,420,035	1,339,656
Amortisation of Stock and Futures Exchange trading rights	842,367	842,366
Staff costs (including directors' remuneration – note 8):		
Wages and salaries	47,620,260	48,510,441
Write-back of overprovision for bonuses	–	(1,857,647)
Pension scheme contributions	4,023,372	4,078,555
Less: Forfeited contributions	(517,686)	(747,492)
	<u>3,505,686</u>	<u>3,331,063</u>
Net pension scheme contributions*	<u>3,505,686</u>	<u>3,331,063</u>
	<u>51,125,946</u>	<u>49,983,857</u>
Interest expenses for financial services operations		
– on bank loans and overdrafts	5,518,585	8,451,083
– on other loans wholly repayable within five years	4,420,445	11,011,137
Minimum lease payments under operating leases	10,577,499	10,236,471
Auditors' remuneration	800,000	800,000
Loss on disposal of fixed assets	280,983	19,695
Net realised loss/(gain) on trading of listed equity investments and futures contracts	(895,244)	11,099,635
Net unrealised loss/(gain) on listed equity investments	4,053,400	(3,135,403)
Write-back of overprovision for legal and professional fees	–	(1,160,305)
	<u>–</u>	<u>(1,160,305)</u>

* At 31 December 2002, the forfeited contributions available to the Group to reduce its contributions to the pension scheme in future years amounted to approximately HK\$5,014 (2001: HK\$12,450).

Notes to the Financial Statements

8. DIRECTORS' REMUNERATION

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

	Group	
	2002 HK\$	2001 HK\$
Fees:		
Executive directors	-	-
Non-executive directors *	<u>100,000</u>	<u>100,000</u>
	100,000	100,000
Other emoluments:		
Executive directors		
Salaries, allowances and benefits in kind	2,616,000	2,616,000
Pension scheme contributions	<u>225,600</u>	<u>225,600</u>
	2,841,600	2,841,600
	<u>2,941,600</u>	<u>2,941,600</u>

* Except for the above directors' fees paid to the independent non-executive directors, there were no other emoluments payable to them during the year (2001: Nil).

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

	Number of directors	
	2002	2001
Nil to HK\$1,000,000	8	8
HK\$2,500,001 to HK\$3,000,000	<u>1</u>	<u>1</u>
	<u>9</u>	<u>9</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2001: Nil).

During the year, a director exercised 11,000,000 share options as detailed in note 34 to the financial statements. No options were granted to the directors during the year (2001: Nil).

Notes to the Financial Statements

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2001: one) director, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining four (2001: four) non-director, highest paid employees are as follows:

	2002 HK\$	Group 2001 HK\$
Salaries, allowances and benefits in kind	5,756,316	7,202,868
Bonuses	269,853	552,319
Pension scheme contributions	462,482	363,602
	<u>6,488,651</u>	<u>8,118,789</u>

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

	2002	Group 2001
HK\$1,000,001 to HK\$1,500,000	3	1
HK\$2,000,001 to HK\$2,500,000	1	3
	<u>4</u>	<u>4</u>

10. FINANCE COSTS

	2002 HK\$	Group 2001 HK\$
Interest on bank loans and overdrafts	<u>58,539</u>	<u>922,853</u>

11. TAX

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits arising in Hong Kong during the year.

	2002	Group
	<i>HK\$</i>	2001 <i>HK\$</i>
Provision for the year	58,462	485,000
Underprovision in the prior year	824,225	-
Share of tax attributable to jointly-controlled entities	3,718,972	2,622,890
Share of tax attributable to an associate	-	8,476
	<u>4,601,659</u>	<u>3,116,366</u>

12. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2002 dealt with in the financial statements of the Company was HK\$1,913,143 (2001: HK\$7,016,518).

13. DIVIDEND

	2002	2001
	<i>HK\$</i>	<i>HK\$</i>
Proposed final – HK1 cent (2001: HK1 cent) per ordinary share	<u>5,307,591</u>	<u>5,197,591</u>

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

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\$10,668,473 (2001: HK\$18,043,716) and the weighted average of 521,118,030 (2001: 519,696,660) 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\$10,668,473 (2001: HK\$18,043,716). The weighted average number of ordinary shares used in the calculation comprises the 521,118,030 (2001: 519,696,660) ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average of 4,112,945 (2001: 4,242,910) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all options outstanding during the year, and the weighted average of 59,961,590 (2001: Nil) ordinary shares assumed to have been issued on the full conversion of the convertible note outstanding during the year.

15. FIXED ASSETS

Group

	Land and buildings HK\$	Leasehold improvements HK\$	Furniture, fixtures and equipment HK\$	Motor vehicles HK\$	Total HK\$
Cost:					
At beginning of year	4,095,000	13,345,725	32,245,903	4,520,739	54,207,367
Additions	-	985,305	3,398,667	-	4,383,972
Disposals	-	(471,765)	(82,863)	-	(554,628)
At 31 December 2002	4,095,000	13,859,265	35,561,707	4,520,739	58,036,711
Accumulated depreciation:					
At beginning of year	962,325	11,350,477	18,388,318	3,737,859	34,438,979
Provided during the year	122,850	1,713,633	7,529,594	337,880	9,703,957
Disposals	-	(220,726)	(47,919)	-	(268,645)
At 31 December 2002	1,085,175	12,843,384	25,869,993	4,075,739	43,874,291
Net book value:					
At 31 December 2002	3,009,825	1,015,881	9,691,714	445,000	14,162,420
At 31 December 2001	3,132,675	1,995,248	13,857,585	782,880	19,768,388

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 30).

Notes to the Financial Statements

16. STOCK AND FUTURES EXCHANGE TRADING RIGHTS

	Group <i>HK\$</i>
Cost:	
At beginning and end of year	8,011,296
Accumulated amortisation:	
At beginning of year	1,272,366
Provided during the year	842,367
At end of year	2,114,733
Net book value:	
At 31 December 2002	5,896,563
At 31 December 2001	6,738,930

17. OTHER ASSETS

	2002 <i>HK\$</i>	Group 2001 <i>HK\$</i>
Club debentures	2,470,000	2,470,000
Prepayments and deposits	3,565,110	3,689,875
	6,035,110	6,159,875

18. INTERESTS IN SUBSIDIARIES

	2002 HK\$	Company 2001 HK\$
Unlisted shares, at cost	90,910,146	90,910,146
Due from subsidiaries	<u>654,929,760</u>	<u>788,155,821</u>
	745,839,906	879,065,967
Due to subsidiaries	<u>(41,367,736)</u>	<u>(16,959,283)</u>
	704,472,170	862,106,684
Provision for impairment	<u>(81,767,554)</u>	<u>(74,997,554)</u>
	<u>622,704,616</u>	<u>787,109,130</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\$281,781,373 (2001: HK\$224,885,263) which bear interest ranging from the bank deposit saving rate to the prime rate plus 2.75% (2001: bank deposit saving rate to the prime rate plus 2.75%) per annum.

Notes to the Financial Statements

18. INTERESTS IN SUBSIDIARIES (CONTINUED)

All of the principal subsidiaries, unless otherwise indicated, are incorporated and operate 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		
		2002	2001	2002	2001	
Shenyin Wanguo Securities (H.K.) Limited	300,000 ordinary shares of HK\$100 each	100	100	-	-	Securities broking and margin financing
Shenyin Wanguo Finance (H.K.) Limited	25,000,000 ordinary shares of HK\$1 each	100	100	-	-	Provision of financial services
Shenyin Wanguo Capital (H.K.) Limited	600,000 ordinary shares of HK\$10 each	100	100	-	-	Corporate finance
Shenyin Wanguo Futures (H.K.) Limited	8,000,000 ordinary shares of HK\$1 each	100	100	-	-	Futures and options dealing
Shenyin Wanguo Brokerage (H.K.) Limited	5,000,000 ordinary shares of HK\$1 each	100	100	-	-	Securities broking
Shenyin Wanguo Research (H.K.) Limited	300,000 ordinary shares of HK\$1 each	100	100	-	-	Provision of securities research services
Shenyin Wanguo Enterprises (H.K.) Limited	15,000,000 ordinary shares of HK\$1 each	100	100	-	-	Provision of management and treasury services

18. INTERESTS IN SUBSIDIARIES (CONTINUED)

Name	Nominal value of issued and fully paid share capital	Percentage of ordinary shares held				Principal activities
		Direct		Indirect		
		2002	2001	2002	2001	
Sparkle Well Limited	2 ordinary shares of HK\$1 each	100	100	-	-	Property holding
Wealthy Limited	2 ordinary shares of HK\$1 each	100	100	-	-	Property holding
Shenyin Wanguo Strategic Investments (H.K.) Limited	10,000 ordinary shares of HK\$1 each	100	100	-	-	Securities trading and investment
First Million Holdings Limited*	1 ordinary share of US\$1	100	100	-	-	Securities trading and investment
Shenyin Wanguo Trading (H.K.) Limited	375,000 ordinary shares of HK\$1 each	100	100	-	-	Securities trading and provision of agency services
Shenyin Wanguo (Holdings) Limited	2 ordinary shares of HK\$1 each	100	100	-	-	Investment holding
Shenyin Wanguo Nominees (H.K.) Limited	1,000 ordinary shares of HK\$1 each	-	-	100	100	Provision of share custodian and nominee services

Notes to the Financial Statements

18. INTERESTS IN SUBSIDIARIES (CONTINUED)

Name	Nominal value of issued and fully paid share capital	Percentage of ordinary shares held				Principal activities
		Direct		Indirect		
		2002	2001	2002	2001	
Shenyin Wanguo Online Limited	2 ordinary shares of HK\$1 each	100	100	-	-	Leasing of computer equipment
Crux Assets Limited*	1 ordinary share of US\$1	-	-	100	100	Investment holding
Shenyin Wanguo Asset Management (Asia) Limited (<i>note 20</i>)**	1,000,000 ordinary shares of HK\$1 each	-	-	100	49	Provision of asset management services

* Incorporated in the British Virgin Islands.

** The Company's interest in Shenyin Wanguo Asset Management (Asia) Limited was 49% in the prior year and was previously classified as an associate. During the year, the Group acquired the remaining interest of 51%, and accordingly, Shenyin Wanguo Asset Management (Asia) Limited became a wholly-owned subsidiary of the Group.

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.

19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	2002 HK\$	Group 2001 HK\$
Share of net assets	<u>173,853,864</u>	<u>195,841,893</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 Limited ("NCHK")	Corporate	British Virgin Islands	26.19	26.19	26.19	Investment holding
Sichuan Chengmian Expressway Co. Limited ("SCECL")	Corporate	Mainland China	15.71	15.71	26.19	Highway operations

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 dated 18 March 1994 and based on the financial statements of the joint venture prepared under the generally accepted accounting principles in the PRC, NCHK is entitled to all of the net profits generated by SCECL from the date of registration of SCECL to 21 December 2003. Thereafter, NCHK is entitled to 60% and 50% of the net profits generated by SCECL for the periods from 22 December 2003 to 21 December 2008 and from 22 December 2008 to 21 December 2018, respectively. For the period from 22 December 2018 to the end of the joint venture period on 21 December 2024, NCHK is entitled to 40% of the net profits generated by SCECL.

The interests in jointly-controlled entities have been pledged to a bank to secure the Group's bank loans (note 30).

Notes to the Financial Statements

19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (CONTINUED)

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

	NCHK and its subsidiary	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	<u>196,196</u>	<u>169,794</u>
Profit before tax	<u>101,761</u>	<u>65,305</u>
Fixed assets	1,588,147	1,624,406
Current assets	69,904	100,355
Current liabilities	(30,899)	(66,132)
Long term liabilities	(51,769)	(15,729)
Minority interests	<u>(911,565)</u>	<u>(895,126)</u>
Net assets	<u>663,818</u>	<u>747,774</u>

20. INTEREST IN AN ASSOCIATE

	2002 HK\$	Group 2001 HK\$
Share of net assets	-	502,987

Particulars of the associate are as follows:

Name	Business structure	Place of incorporation and operations	Percentage of ownership interest attributable to the Group		Principal activity
			2002	2001	
Shenyin Wanguo Asset Management (Asia) Limited	Corporate	Hong Kong	100	49	Provision of asset management services

On 26 June 2002, the Group acquired an additional 51% equity interest of the associate and accordingly, Shenyin Wanguo Asset Management (Asia) Limited became a wholly-owned subsidiary of the Group (note 18).

Notes to the Financial Statements

21. GOODWILL

	Group <i>HK\$</i>
Cost:	
At beginning and end of year	<u>64,658,842</u>
Accumulated amortisation:	
At beginning of year	3,040,278
Provided for the year	<u>1,420,035</u>
At end of year	<u>4,460,313</u>
Net book value:	
At 31 December 2002	<u><u>60,198,529</u></u>
At 31 December 2001	<u><u>61,618,564</u></u>

22. LONG TERM RECEIVABLE

	2002 <i>HK\$</i>	Group 2001 <i>HK\$</i>
Amounts receivable	292,767,388	292,767,388
Less: Provision for doubtful debts	<u>(110,000,000)</u>	<u>-</u>
	182,767,388	292,767,388
Less: Portion classified as current and included in advances to customers	<u>-</u>	<u>(6,824,089)</u>
Long term receivable	<u><u>182,767,388</u></u>	<u><u>285,943,299</u></u>

At 31 December 2002, 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 (2001: HK\$292,767,388), representing approximately 45% (2001: 46%) 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. These receivables are guaranteed by CCIH, partially secured by listed securities and are due for repayment.

22. LONG TERM RECEIVABLE (CONTINUED)

As the directors consider that the receivable is unlikely to be recovered within the next 12 months, the amount has been classified as a long term receivable and a provision of HK\$110,000,000 has been made against this receivable in the current year. The amounts receivable from the CC Group bear interest ranging from prime rate plus 3.05% to 4% (2001: prime rate plus 3.05% to 4%) per annum but no interest has been recognised due to the uncertainty of the recoverability of the receivable.

23. INVESTMENTS

	2002 HK\$	Group 2001 HK\$
Long term investments		
Listed equity investments in Hong Kong at fair value	<u>4,984,315</u>	<u>12,732,505</u>
Short term investments		
Listed equity trading securities at market value:		
Hong Kong	<u>60,188,073</u>	23,488,803
Overseas	<u>79,402</u>	<u>14,010,918</u>
	<u>60,267,475</u>	<u>37,499,721</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\$4,728,841 (2001: HK\$9,523,563).

The market value of the Group's short term listed equity trading securities at the date of approval of these financial statements was approximately HK\$60,407,532 (2001: HK\$34,483,048).

Certain listed investments of the Group have been pledged to secure the Group's bank loans and other borrowings (note 30).

Notes to the Financial Statements

24. INTEREST IN AN UNCONSOLIDATED SUBSIDIARY

	2002 HK\$	Group 2001 HK\$
Unlisted shares, at fair value	-	30,499,674

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 by the Group		Principal activity
			2002	2001	
Jammy Chai (Guangzhou) Food Company Limited *	Mainland China	RMB52,232,860	-	50.2	Production of non-staple foodstuffs and flavourings

* During the year, the Company disposed of its entire interest in two subsidiaries which held the interest in the unconsolidated subsidiary to an independent third party at a total consideration of HK\$50,000,000, resulting in a net gain on disposal of HK\$19,224,728 (note 6).

Notes to the Financial Statements

25. ACCOUNTS RECEIVABLE

	2002 <i>HK\$</i>	Group 2001 <i>HK\$</i>
Accounts receivable	108,062,275	164,783,038
Less: Provision for doubtful debts – specific	(19,231,242)	(14,499,445)
	<u>88,831,033</u>	<u>150,283,593</u>

An aged analysis of accounts receivable is as follows:

	2002 <i>HK\$</i>	2001 <i>HK\$</i>
Current to 30 days	75,971,138	131,671,671
31 to 60 days	8,315,546	5,402,814
61 to 90 days	1,506,017	422,216
Over 90 days	<u>22,269,574</u>	<u>27,286,337</u>
	<u>108,062,275</u>	<u>164,783,038</u>

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

Notes to the Financial Statements

26. LOANS AND ADVANCES

	2002 HK\$	Group 2001 HK\$
Loans and advances to customers:		
Secured	260,394,504	217,010,635
Unsecured	23,239,909	26,018,313
Interest receivable	<u>1,697,427</u>	<u>5,485,727</u>
	285,331,840	248,514,675
Less: Provision for doubtful debts:		
Specific	(17,576,319)	(12,908,116)
General	<u>(64,908)</u>	<u>(64,908)</u>
	<u>267,690,613</u>	<u>235,541,651</u>

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:

	2002 HK\$	2001 HK\$
Repayable on demand	234,463,321	173,940,132
Within three months	3,621,087	20,000,000
One year or less, but over three months	12,892,163	21,756,585
Undated	<u>34,355,269</u>	<u>32,817,958</u>
	<u>285,331,840</u>	<u>248,514,675</u>

As at 31 December 2002, the total market value of securities pledged as collateral in respect of loans to customers was HK\$572,306,348 (2001: HK\$757,286,971).

Notes to the Financial Statements

27. CASH AND CASH EQUIVALENTS

	Group		Company	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Bank balances	12,724,999	51,466,005	444,506	739,171
Time deposits with original maturity of less than three months when acquired	22,424,651	23,006,597	-	-
	<u>35,149,650</u>	<u>74,472,602</u>	<u>444,506</u>	<u>739,171</u>

28. ACCOUNTS PAYABLE

An aged analysis of accounts payable is as follows:

	Group	
	2002 HK\$	2001 HK\$
Current to 30 days	<u>394,404,258</u>	<u>481,822,403</u>

29. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Other payables	9,904,733	10,001,316	3,514,577	2,618,416
Accruals	8,256,906	7,491,371	2,201,000	917,000
	<u>18,161,639</u>	<u>17,492,687</u>	<u>5,715,577</u>	<u>3,535,416</u>

SSAP 34 was adopted during the year, as explained in note 2 and under the heading "Employee benefits" in note 3 to the financial statements. As a result, an accrual is now made at the balance sheet date for the expected future cost of paid annual leave earned during the year by employees, which remains untaken by the employees at the balance sheet date and is permitted to be carried forward and utilised in the following year.

Notes to the Financial Statements

29. OTHER PAYABLES AND ACCRUALS (CONTINUED)

This change in accounting policy has resulted in HK\$1,194,863 being included in the balance of the Group's accruals in respect of paid leave carried forward as at 31 December 2002. Accordingly, the consolidated net profit attributable to shareholders for the year ended 31 December 2002 has been decreased by HK\$1,194,863.

30. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Group		Company	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Bank overdrafts:				
Secured	2,449,888	23,052,973	-	-
Unsecured	-	15,060,725	-	-
Bank loans:				
Secured	141,739,844	46,995,640	-	-
Other loans:				
Secured	-	50,000,000	-	-
Unsecured	30,000,000	180,000,000	30,000,000	180,000,000
Loan from a related party (note 39)	-	20,000,000	-	20,000,000
	<u>174,189,732</u>	<u>335,109,338</u>	<u>30,000,000</u>	<u>200,000,000</u>

Notes to the Financial Statements

30. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

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

	Group		Company	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Bank overdrafts repayable within one year or on demand	2,449,888	38,113,698	-	-
Bank loans repayable:				
Within one year or on demand	140,266,747	45,253,979	-	-
In the second year	272,790	263,106	-	-
In the third to fifth years, inclusive	869,170	844,072	-	-
Beyond five years	331,137	634,483	-	-
	141,739,844	46,995,640	-	-
Other loans repayable:				
Within one year or on demand	30,000,000	106,000,000	30,000,000	70,000,000
In the third to fifth years, inclusive	-	144,000,000	-	130,000,000
	30,000,000	250,000,000	30,000,000	200,000,000
	174,189,732	335,109,338	30,000,000	200,000,000
Portion classified as current liabilities	(172,716,635)	(189,367,677)	(30,000,000)	(70,000,000)
Long term portion	1,473,097	145,741,661	-	130,000,000

The secured bank loans, bank overdrafts and other loans are secured by the pledge of certain listed investments of the Group (note 23), interests in jointly-controlled entities (note 19) and listed shares held by the Group as security for advances to customers, and are guaranteed by the Company.

Notes to the Financial Statements

30. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

The loan from a related party was unsecured, bore interest at the prime rate and was fully repaid during the year (note 39).

Bank loans of HK\$1,739,844 (2001: HK\$1,995,640) are secured by the pledge of the Group's land and buildings (note 15).

31. DEFERRED TAX

No deferred tax has been provided as there were no significant timing differences at the balance sheet date (2001: Nil).

The principal components of the Group's unprovided deferred tax asset calculated at 16% (2001: 16%) are as follows:

	2002 HK\$	2001 <i>HK\$</i>
Tax losses	27,884,682	29,963,820
Accelerated depreciation allowances	(12,432)	688,939
	<u>27,872,250</u>	<u>30,652,759</u>

32. CONVERTIBLE NOTE

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 a further 2 years subject to certain conditions) in a principal amount of HK\$132,000,000, with total interest of approximately HK\$12,000,000 to be paid by 7 March 2005. Together with the issue of the convertible note, the Group paid HK\$36,000,000 in cash on the same 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. The indebtedness represented unsecured other loans of HK\$130,000,000 and a secured other loan of HK\$50,000,000 included in note 30, plus accrued interest thereon.

As a result of the settlement agreement, all of the prior years' accrued interest on the indebtedness aggregating HK\$51,795,688, was written back in the consolidated profit and loss account for the year ended 31 December 2001, and part of the original loan amount of HK\$12,000,000 was accounted for as an other payable to offset against the future interest element of the 3-year 3% convertible note.

On 8 November 2002, the Group agreed with the holder of the convertible note to cancel the outstanding convertible note of HK\$132,000,000, together with a waiver of interest thereon, for a cash consideration of HK\$40,000,000, resulting in a gain on cancellation of the convertible note of HK\$92,000,000. As a result of the cancellation of the convertible note, the abovementioned other payable of HK\$12,000,000 arising from the issue of the convertible note was written back in the current year's consolidated profit and loss account.

Notes to the Financial Statements

33. SHARE CAPITAL

	Company Number of ordinary shares of HK\$0.50 each	HK\$
Authorised	<u>2,000,000,000</u>	<u>1,000,000,000</u>
Issued and fully paid:		
At 1 January 2001	519,359,126	259,679,563
Issue of shares on exercise of options	<u>400,000</u>	<u>200,000</u>
At 31 December 2001 and 1 January 2002	519,759,126	259,879,563
Issue of shares on exercise of options	<u>11,000,000</u>	<u>5,500,000</u>
At 31 December 2002	<u>530,759,126</u>	<u>265,379,563</u>

The subscription rights attaching to 11,000,000 (2001: 400,000) share options were exercised at the subscription price of HK\$0.50 (2001: HK\$0.60) per share (note 34), resulting in the issue of 11,000,000 (2001: 400,000) shares of HK\$0.50 each for a total cash consideration of HK\$5,500,000 (2001: HK\$240,000).

34. SHARE OPTION SCHEME

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

Under a share option scheme (the "Scheme") adopted by the shareholders at the Company's extraordinary general meeting on 12 December 1992 for the purpose of incentivising the staff, the directors were able to, 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 permitted to be granted under the Scheme was 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 was able to 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 was determinable by the directors, and in any event, commenced on the expiry of one month after the share options were accepted (the "Commencement Date") and ended on the fifth anniversary of the Commencement Date or the expiry date of the Scheme, whichever was earlier.

Following the changes to the Listing Rules on share option schemes coming into effect on 1 September 2001, the maximum entitlement of each participant under the Scheme is 1% of the Company's shares in issue in any 12-month period from time to time. In addition, the exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the closing price of the shares on the Stock Exchange on the date of the offer of the share options; and (ii) the average closing price of the shares on the Stock Exchange for the five trading days immediately preceding the date of the offer.

During the year ended 31 December 2002, no share option was granted and 11,000,000 share options were exercised. At the balance sheet date, the Company had no outstanding share option.

Notes to the Financial Statements

34. SHARE OPTION SCHEME (CONTINUED)

The movements in the share options under the Scheme during the year are as follows:

Name or category of participant	Number of share options			Date of grant of share options*	Exercise period of share options	Exercise price of share options**	Price of the Company's shares***	
	At 1 January 2002	Exercised during the year	At 31 December 2002				At grant date of share options	At exercise date of share options
						HK\$	HK\$	HK\$
Director								
Lee Man Chun								
Tony	2,200,000	(2,200,000)	-	1-6-2000	1-6-2001 to 11-12-2002	0.50	0.41	0.75
	3,300,000	(3,300,000)	-	1-6-2000	1-12-2001 to 11-12-2002	0.50	0.41	0.74
	5,500,000	(5,500,000)	-	1-6-2000	1-6-2002 to 11-12-2002	0.50	0.41	0.74
	<u>11,000,000</u>	<u>(11,000,000)</u>	<u>-</u>					

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

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

*** The price of the Company's shares disclosed as at the date of the grant of the share options is the closing price on the Stock Exchange on the trading day immediately prior to the date of the grant of the share options. The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the closing prices on the Stock Exchange over all of the exercise of options within the disclosure category.

The weighted average closing price of the Company's shares immediately before the dates on which the share options were exercised is HK\$0.75.

Since no share option was granted under the Scheme during the year ended 31 December 2002, no value of share option granted has been disclosed accordingly.

The 11,000,000 share options exercised during the year resulted in the issue of 11,000,000 ordinary shares of the Company and new share capital of HK\$5,500,000, as further detailed in note 33 to the financial statements.

35. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 25 of the financial statements.

The Group's general reserve represents the prior year appropriations of profits which is distributable.

(b) Company

	<i>Notes</i>	Share premium account <i>HK\$</i>	General reserve <i>HK\$</i>	Retained profits <i>HK\$</i>	Total <i>HK\$</i>
At 1 January 2001		314,699,683	656,293	4,065,180	319,421,156
Issue of shares	33	40,000	-	-	40,000
Net profit for the year		-	-	7,016,518	7,016,518
Proposed final 2001 dividend	13	-	-	(5,197,591)	(5,197,591)
At 31 December 2001 and 1 January 2002		314,739,683	656,293	5,884,107	321,280,083
Net profit for the year		-	-	1,913,143	1,913,143
Proposed final 2002 dividend	13	-	-	(5,307,591)	(5,307,591)
At 31 December 2002		<u>314,739,683</u>	<u>656,293</u>	<u>2,489,659</u>	<u>317,885,635</u>

The Company's general reserve represents the prior year appropriations of profits which are distributable.

36. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Prior year adjustments

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

Also, the definition of "cash equivalents" under the revised SSAP 15 has been revised from that under the previous SSAP 15, as explained under the heading "Cash and cash equivalents" in note 3 to the financial statements. This has resulted in certain bank loans no longer qualifying as cash equivalents. The amount of cash equivalents in the consolidated cash flow statement at 31 December 2001 has been adjusted to remove bank loans amounting to HK\$45,000,000, previously included at that date. The year's movements in bank loans are now included in cash flows from financing activities and the comparative cash flow statement has been changed accordingly.

(b) Major non-cash transactions

- (i) During the year ended 31 December 2002, as detailed in note 32 to the financial statements, other loans totalling HK\$180 million were settled by cash of HK\$36 million, and the issuance of a convertible note of HK\$132 million and an other payable of HK\$12 million which had no effect on the Group's cash flows.
- (ii) On 26 June 2002, the Group acquired the remaining 51% interest in an associate for a cash consideration of HK\$509,738. Accordingly, the Group's interest in an associate of HK\$478,601 as at the date of acquisition was reclassified as an investment in a subsidiary.

36. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

(c) Disposal of subsidiaries

	2002 HK\$	2001 HK\$
Net assets/(liabilities) disposed of:		
Cash and bank balances	400	-
Deposits	2,250	345,000
Interest in an unconsolidated subsidiary	30,499,674	-
Due to a Group company	<u>(5,800,408)</u>	<u>(359,498)</u>
	24,701,916	(14,498)
Gain on disposal (<i>note 6</i>)	<u>19,224,728</u>	<u>495,151</u>
	<u><u>43,926,644</u></u>	<u><u>480,653</u></u>
Satisfied by:		
Amount due to a Group company	(5,800,408)	(359,498)
Cash	<u>49,727,052</u>	<u>840,151</u>
	<u><u>43,926,644</u></u>	<u><u>480,653</u></u>

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

	2002 HK\$	2001 HK\$
Cash consideration, net	49,727,052	840,151
Cash and bank balances disposed of	<u>(400)</u>	<u>-</u>
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	<u><u>49,726,652</u></u>	<u><u>840,151</u></u>

The results of these subsidiaries disposed of in the current and prior year had no significant impact on the consolidated turnover and profit after tax for the two years.

Notes to the Financial Statements

36. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

(d) Acquisition of a subsidiary

	2002 HK\$	2001 HK\$
Net assets acquired:		
Cash and bank balance	1,061,756	-
Other payables and accruals	<u>(63,584)</u>	<u>-</u>
	998,172	-
Negative goodwill on acquisition	<u>(9,833)</u>	<u>-</u>
	<u><u>988,339</u></u>	<u><u>-</u></u>
Satisfied by:		
Cash	509,738	-
Reclassification of interest in a subsidiary from interest in an associate	<u>478,601</u>	<u>-</u>
	<u><u>988,339</u></u>	<u><u>-</u></u>

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	2002 HK\$	2001 HK\$
Cash consideration	(509,738)	-
Cash and bank balances acquired	<u>1,061,756</u>	<u>-</u>
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	<u><u>552,018</u></u>	<u><u>-</u></u>

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

37. CONTINGENT LIABILITIES

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

	Group		Company	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Guarantees in respect of bank loans and other facilities granted to subsidiaries	-	-	442,500,000	532,570,000

As at 31 December 2002, 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\$27,449,000 (2001: HK\$85,108,000).

38. COMMITMENTS

(a) Capital commitments

	Group	
	2002 HK\$	2001 HK\$
Contracted, but not provided for	1,400,000	1,203,585

(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 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2002 HK\$	2001 HK\$
Within one year	8,646,374	4,195,377
In the second to fifth years, inclusive	10,252,564	1,125,026
	18,898,938	5,320,403

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

39. CONNECTED AND RELATED PARTY TRANSACTIONS

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

- (a) On 26 June 2002, the Group acquired from Shanghai Shenyin (H.K.) Holdings Limited, of which a director of the Company is also a director, a 51% interest in Shenyin Wanguo Asset Management (Asia) Limited ("Asset Management") for a cash consideration of HK\$509,738, based on the internal valuation of the business prepared by the directors. As a result, Asset Management became a wholly-owned subsidiary of the Group.
- (b) The loan advanced from the substantial shareholder of the Company, Venture-Some Investments Limited, of HK\$20,000,000 was fully repaid during the year (note 30).
- (c) The Group paid research fee of HK\$100,000 (2001: HK\$795,000) to the substantial shareholder of the Company, Shenyin & Wanguo Securities Co., Ltd.
- (d) During the year, the Group utilised the revolving loan facility with the maximum amount of HK\$20,000,000 from and paid the interest expenses totalling HK\$235,890 (2001: Nil) to Shanghai Shenyin Securities (H.K.) Ltd., of which a director of the Company is also a director. The facility was not utilised as at the balance sheet date.

40. COMPARATIVE AMOUNTS

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

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 11 April 2003.