

# Notes to the Accounts

For the year ended 31 December 2002

## 1. CORPORATE INFORMATION

The Company was incorporated in Bermuda as an exempted company with limited liability. The principal place of business of the Company is located at 34/F, COSCO Tower, Grand Millennium Plaza, 183 Queen's Road Central, Hong Kong.

Pursuant to a group reorganisation scheme (the "Reorganisation") to rationalise the structure of the Group in preparing for the listing of the Company's shares on the Stock Exchange, the Company became the holding company of the Group in Hong Kong on 15 August 2000 and its shares were listed on the Main Board of the Stock Exchange with effect from 28 September 2000.

On 27 June 2002, the former substantial shareholder of the Company, OSK Holdings Berhad, a company incorporated in Malaysia whose shares are listed on the Kuala Lumpur Stock Exchange, completed an unconditional sale and purchase transaction with Kingly, a company incorporated in the British Virgin Islands with limited liability, to sell to Kingly 363,428,618 shares of the Company, which represent approximately 60.57% of the entire issued share capital of the Company, for a consideration of HK\$192,770,575 (equivalent to approximately HK\$0.53 per share). Pursuant to the transaction, Kingly was obliged to make an unconditional share and options offers on the terms as set out in the composite offer document dated 4 July 2002. As a result, in the opinion of the Directors, King United Agents Limited, a company incorporated in the British Virgin Islands with limited liability, and Kingly are regarded respectively as the ultimate holding company and the immediate holding company of the Company.

By a special resolution passed on the special general meeting held on 22 November 2002, it was resolved that the Company's name be changed from "OSK ASIA CORPORATION LIMITED" to "REXCAPITAL Financial Holdings Limited".

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

## 2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated accounts are set out as below:

### (a) Basis of preparation

The Reorganisation in 2000 was intended as a reorganisation of entities under common control. Under this basis, the Group is regarded as a continuing entity and accordingly, the consolidated accounts of the Group have been accounted for on the basis of merger accounting.

The accounts have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention as modified by revaluation of certain investments in securities.

In the current year, the Group has adopted the following Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 15 (revised)	:	Cash flow statements
SSAP 34	:	Employee benefits

# Notes to the Accounts *(Continued)*

*For the year ended 31 December 2002*

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (a) Basis of preparation *(Continued)*

The effect of adopting these new/revised standards is set out as below:

(1) SSAP 1 (revised): Presentation of financial statements

The requirement for presenting a statement of recognised gains and losses has changed to presenting a statement of changes in equity.

(2) SSAP 15 (revised): Cash flow statements

The presentation and classification of items in the cash flow statement have been changed due to the adoption of the requirements of SSAP15 (revised). As a result, cash flows during the year in respect of the operating, investing and financing activities have been reclassified. Net cash outflows from taxation and interest paid of HK\$6,311 (2001: HK\$471,622) and HK\$259,861 (2001: HK\$1,477,048) respectively have been reclassified as operating cash flow while cash inflow from dividend received of HK\$258,957 (2001: HK\$734,858) has been reclassified as investing cash flow and cash outflow from dividends paid of HK\$16,986,090 in 2001 has been reclassified as financing cash flow.

(3) SSAP 34: Employee benefits

(i) Bonus plans

Provision for bonus plans due wholly within twelve months after the balance sheet date is recognised when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

(ii) Accumulating compensated absences (unused paid annual leave)

Employee entitlements to paid annual leave are recognised when they accrue to employees. Under SSAP 34 "Employee benefits", a provision is made for the estimated liability for "Accumulating compensated absences" (unused paid annual leave) which can be carried forward indefinitely as a result of services rendered by employees up to the balance sheet date. This represents a change in accounting policy as in previous years or periods, no provision was made for this liability as a result of the unused entitlement that has accumulated at the balance sheet date. The amount of unused annual leave entitlements of the staff of the Group at 31 December 2001 is not available due to the change of management after the completion of the transaction as mentioned in note 1 to the accounts and this change in accounting policy has therefore been applied prospectively. The effect of adopting this new accounting policy is to increase the loss for the year by HK\$353,476.

(iii) Retirement benefit costs

The Group's contributions to a defined contribution retirement scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance (the "MPF Scheme") are expensed as incurred. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

(iv) Share option scheme

When the Group grants qualifying employees options to acquire shares of the Company, the options can be exercised at a price and under certain conditions as indicated in note 23 to the accounts and no employee benefit cost or obligation is recognised at that time. When the options are exercised, equity is increased by the amount of the proceeds received (net of any transaction costs).

# Notes to the Accounts *(Continued)*

For the year ended 31 December 2002

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal as appropriate. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged to or recognised in the consolidated profit and loss account.

### (c) Subsidiaries

Subsidiaries are those entities in which the Group controls the composition of the board of directors, controls more than half of the voting power or holds more than half of the issued share capital.

In the Company's balance sheet, interests in subsidiaries are stated at cost less any impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

### (d) Revenue recognition

#### (i) Interest income

Interest income is recognised when there is no uncertainty as to the ultimate collection on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

#### (ii) Commission income, handling fee income, asset management and advisory fees

Income arising from broking, corporate and asset management are recognised when the relevant services are rendered and the amount can be reliably estimated and it is probable that it will be received.

#### (iii) Realised gains and losses on disposal of investments in securities

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

### (e) Turnover

Turnover represents commission income, handling fee income, interest income and revenues from asset management and advisory fees.

# Notes to the Accounts *(Continued)*

*For the year ended 31 December 2002*

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (f) Fixed assets

Fixed assets, comprising leasehold improvements, furniture and fixtures, office equipment and motor vehicles, are stated at cost less accumulated depreciation and any accumulated impairment losses.

Fixed assets are depreciated at the following annual rates sufficient to write off their costs less any accumulated impairment losses over their estimated useful lives, on a straight line basis:

Leasehold improvements	16 - 50%
Furniture and fixtures	25%
Office equipment	25%
Motor vehicles	25%

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to the profit and loss account and is shown as a movement in reserves.

### (g) Intangible assets

Intangible assets represent trading rights in the Stock Exchange and the Hong Kong Futures Exchange Limited (the "HKFE") which are stated at amortised cost. In prior years, the Group charged amortisation on its intangible assets over a period of 10 years from the date of acquisition. Based on the prevailing economic condition, the Directors opined that the amortisation period should be reduced to 3 years from the beginning of this year to better approximate the length of their estimated useful lives. The revised amortisation rate has been applied prospectively from 1 January 2002. The effect of the change in amortisation rate has been to increase the loss for the year by HK\$ 873,015. Where an indication of impairment exists, the carrying amount of any intangible asset is reassessed and written down immediately to its recoverable amount.

### (h) Investments in securities

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

Held-to-maturity securities are stated in the balance sheet at cost plus/less any discount/premium amortised to date, less any impairment loss recognised to reflect irrecoverable amounts. The discount or premium is amortised over the period to maturity and aggregated with other investment income, interest income/expense included in the profit and loss account so that the revenue recognised in each period represents a constant yield on the investment. Provision is made when there is a diminution in value other than temporary.

The carrying amounts of individual held-to-maturity securities or holdings of the same securities are reviewed at each balance sheet date in order to assess the credit risk and whether the carrying amounts are expected to be recovered. Provisions are made when carrying amounts are not expected to be recovered and are recognised in the profit and loss account as an expense immediately.

# Notes to the Accounts *(Continued)*

For the year ended 31 December 2002

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (h) Investments in securities *(Continued)*

#### (ii) Investment securities

Investment securities are stated at cost less any impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities should be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to the profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

#### (iii) Other investments

Other investments are carried at fair value. At each balance sheet date the net unrealised gains or losses arising from changes in fair value of the investments are recognised in the profit and loss account. Profits or losses on disposal of other investments representing the difference between the net sales proceeds and the carrying amounts are recognised in the profit and loss account as they arise.

### (i) Accounts receivable

Provision is made against accounts receivable to the extent that they are considered to be doubtful. Accounts receivable in the balance sheets are stated net of such provision.

### (j) Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed.

Deferred taxation is provided, using the liability method, on all significant timing differences other than those which are not expected to crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

### (k) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight line basis over the lease periods.

### (l) Foreign currencies

Monetary assets and liabilities in foreign currencies at the year end date are translated into Hong Kong Dollars at approximately the market rates of exchange ruling at balance sheet date. Transactions in foreign currencies are translated into Hong Kong Dollars at exchange rates ruling at the transaction dates. Differences arising on exchange are dealt with in the profit and loss account.

# Notes to the Accounts *(Continued)*

*For the year ended 31 December 2002*

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### **(m) Provisions**

In accordance with SSAP 28, provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

### **(n) Contingent liabilities**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

### **(o) Segment reporting**

A segment is a distinguishable components of the Group that is engaged either in providing services (business segment), or in providing services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment and those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses.

### **(p) Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

# Notes to the Accounts *(Continued)*

For the year ended 31 December 2002

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (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 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. TURNOVER, REVENUE AND SEGMENT INFORMATION

Revenue recognised during the year is as follows:

	2002 HK\$	2001 HK\$
TURNOVER		
Commission income and handling fee income	29,849,242	40,288,892
Interest income from:		
— Banks	1,967,256	7,098,756
— Margin clients	6,145,309	11,369,936
— Loan receivables	5,601,275	—
Asset management and advisory fees	571,176	564,865
	<u>44,134,258</u>	<u>59,322,449</u>
OTHER REVENUE		
Reversal of impairment losses on investment security	474,368	—
Realised gain on disposal of other investments and futures trading	1,893,545	280,463
Doubtful debts written back	210,000	389,114
Dividend income from listed investments	258,957	734,858
Other interest income	33,988	—
Other income	492,612	337,128
	<u>3,363,470</u>	<u>1,741,563</u>
TOTAL TURNOVER AND REVENUE	<u>47,497,728</u>	<u>61,064,012</u>

### BUSINESS SEGMENTS

The Group is principally organised into five main operating divisions, namely broking, securities margin financing, money lending, investment trading and holding, corporate finance and asset management. These divisions are the basis on which the Group reports its primary segment information. There are no sales or other transactions between the business segments.

# Notes to the Accounts *(Continued)*

For the year ended 31 December 2002

## 3. TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

(i) Turnover and profit/(loss) attributed to business segments for the year are as follows:

	2002 HK\$'000	2001 HK\$'000
<b>TURNOVER</b>		
Broking	29,365	40,140
Securities margin financing	6,145	11,370
Money lending	5,601	—
Investment trading and holding	1,967	7,099
Corporate finance and asset management	1,056	713
	<u>44,134</u>	<u>59,322</u>
<b>SEGMENT RESULTS</b>		
Broking	(37,387)	(28,725)
Securities margin financing	659	5,320
Money lending	5,736	—
Investment trading and holding	4,572	(19,035)
Corporate finance and asset management	(89)	(2,341)
	<u>(26,509)</u>	<u>(44,781)</u>
<b>NET UNALLOCATED EXPENSES</b>	<u>(2,616)</u>	<u>(1,965)</u>
<b>LOSS BEFORE TAXATION</b>	<u>(29,125)</u>	<u>(46,746)</u>
<b>TAXATION</b>	<u>13</u>	<u>—</u>
<b>LOSS FOR THE YEAR</b>	<u>(29,112)</u>	<u>(46,746)</u>

(ii) Assets and liabilities analysed by business segments are as follows:

	2002 HK\$'000	2001 HK\$'000
<b>ASSETS</b>		
Broking	75,499	134,655
Securities margin financing	43,895	106,601
Money lending	166,768	—
Investment trading and holding	27,131	135,578
Corporate finance and asset management	26	131
	<u>313,319</u>	<u>376,965</u>
<b>TOTAL SEGMENT ASSETS</b>	<u>313,319</u>	<u>376,965</u>
<b>UNALLOCATED ASSETS</b>	<u>15</u>	<u>3,888</u>
<b>TOTAL ASSETS</b>	<u>313,334</u>	<u>380,853</u>
<b>LIABILITIES</b>		
Broking	49,560	63,873
Securities margin financing	11,160	57,548
Money lending	16	—
Investment trading and holding	—	—
Corporate finance and asset management	585	29
	<u>61,321</u>	<u>121,450</u>
<b>TOTAL SEGMENT LIABILITIES</b>	<u>61,321</u>	<u>121,450</u>
<b>UNALLOCATED LIABILITIES</b>	<u>22,330</u>	<u>608</u>
<b>TOTAL LIABILITIES</b>	<u>83,651</u>	<u>122,058</u>



# Notes to the Accounts *(Continued)*

For the year ended 31 December 2002

## 3. TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

(iii) Other information

	Depreciation and amortisation		Provision for doubtful debts		Capital expenditure	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Broking	5,451	4,288	11	1,287	6,772	2,503
Securities margin financing	—	—	1,854	1,341	—	—
Money lending	—	—	—	—	—	—
Investment trading and holding	—	—	—	—	—	—
Corporate finance and asset management	14	15	—	—	—	3
	<u>5,465</u>	<u>4,303</u>	<u>1,865</u>	<u>2,628</u>	<u>6,772</u>	<u>2,506</u>

## GEOGRAPHICAL SEGMENT

The Group's principal markets are located in Hong Kong. For both 2002 and 2001, more than 90% of the Group's turnover and carrying amount of assets were generated from and located in Hong Kong, therefore no geographical segment information is presented.

## 4. STAFF COSTS

	2002 HK\$	2001 HK\$
Salaries, allowances and benefits in kind	28,482,032	36,696,933
Discretionary bonuses	1,078,630	2,078,616
Provident fund contributions	764,927	1,390,990
Provision for short-term accumulating compensated absences ( <i>Note a</i> )	353,476	—
	<u>30,679,065</u>	<u>40,166,539</u>

Notes :

- (a) The Company adopted the new SSAP34 prospectively on the grounds as set out in note 2(a)(3)(ii).
- (b) Included in commission expenses are amounts paid to staff for securities and futures dealing amounting to approximately HK\$4.2 million (2001: HK\$6.6 million).

# Notes to the Accounts *(Continued)*

For the year ended 31 December 2002

## 5. OPERATING LOSS

	2002 HK\$	2001 HK\$
Operating loss of the Group is stated after charging the following:		
Amortisation of trading rights	1,292,255	232,574
Auditors' remuneration	351,250	520,000
Loss on disposal of fixed assets	3,788,364	—
Operating lease rentals in respect of office premises and staff quarters	<u>7,246,696</u>	<u>5,513,652</u>

## 6. FINANCE COSTS

	2002 HK\$	2001 HK\$
Interest on bank overdrafts	202,723	29,836
Interest on client payables with no fixed repayment terms	56,687	1,447,212
Other interest	<u>451</u>	<u>—</u>
	<u>259,861</u>	<u>1,477,048</u>

## 7. DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID INDIVIDUALS

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

	2002 HK\$	2001 HK\$
Fees:		
Executive	—	—
Non-executive	—	60,000
Independent non-executive	<u>153,438</u>	<u>200,000</u>
	153,438	260,000
Other emoluments for executive directors:		
Salaries, housing, other allowances and benefits in kind	2,771,908	5,386,704
Discretionary bonuses	724,750	574,000
Provident fund contributions	<u>20,603</u>	<u>237,000</u>
	<u>3,670,699</u>	<u>6,457,704</u>

# Notes to the Accounts *(Continued)*

For the year ended 31 December 2002

## 7. DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

The remuneration of the Directors fell within the following bands:

	Number of directors	
	2002	2001
Nil to HK\$1,000,000	9	5
HK\$1,000,001 to HK\$1,500,000	1	1
HK\$1,500,001 to HK\$2,000,000	1	—
HK\$2,000,001 to HK\$2,500,000	—	2
	<u>11</u>	<u>8</u>

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

### Five highest paid individuals

Included above are two (2001: three) executive directors whose emoluments were among the five highest paid individuals in the Group.

Details of the emoluments paid to three individuals who were not directors (2001: two), but whose emoluments were among the five highest paid individuals in the Group are as follows:

	2002	2001
	HK\$	HK\$
Salaries, allowances and benefits in kind	3,809,472	2,857,869
Discretionary bonuses	—	201,540
Provident fund contributions	36,000	24,800
	<u>3,845,472</u>	<u>3,084,209</u>

The remuneration of the non-director, highest paid employees fell within the following bands:

	Number of employees	
	2002	2001
Nil to HK\$1,000,000	1	0
HK\$1,000,001 to HK\$1,500,000	1	1
HK\$1,500,001 to HK\$2,000,000	1	1
	<u>3</u>	<u>2</u>

# Notes to the Accounts *(Continued)*

For the year ended 31 December 2002

## 8. TAXATION

No provision for Hong Kong profits tax is made in the accounts as the Group has no estimated assessable profits for the year (2001: 16%).

The amount of taxation credited/(charged) to the consolidated profit and loss account represents:

	2002 HK\$	2001 HK\$
Hong Kong profits tax		
— Current year	—	(550)
— Overprovision for prior years	12,730	423
	<u>12,730</u>	<u>423</u>
	<u>12,730</u>	<u>(127)</u>

Details of the potential deferred taxation not recognised for the year are set out in note 26.

## 9. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$29,183,017 (2001: HK\$58,907,339).

## 10. DIVIDEND

The previously recorded final dividend proposed and declared after the balance sheet date but accrued in the accounts for the year ended 31 December 2000 was HK\$9,000,000. Under the Group's new accounting policy of adopting SSAP 9 (revised) in 2001, this had been written back against opening reserves as at 1 January 2001 in Note 24 and was charged in 2001 in which it was proposed.

## 11. LOSS PER SHARE

The basic loss per share is calculated based on the loss for the year of HK\$29,111,813 (2001: HK\$46,746,459) and the weighted average of 600,000,000 (2001: 600,000,000) ordinary shares in issue during the year.

The diluted loss per share is not shown as the potential shares arising from exercising all of the Company's outstanding share options would decrease the loss per share of the Group for the years ended 31 December 2002 and 31 December 2001 and are regarded as anti-dilutive.

# Notes to the Accounts *(Continued)*

For the year ended 31 December 2002

## 12. FIXED ASSETS

	Leasehold improvements <i>HK\$</i>	Furniture and fixtures <i>HK\$</i>	Office equipment <i>HK\$</i>	Motor vehicles <i>HK\$</i>	Total <i>HK\$</i>
<b>THE GROUP</b>					
<b>COST</b>					
At 1 January 2002	8,559,742	1,142,855	12,138,805	738,554	22,579,956
Additions	5,041,234	898,603	832,176	—	6,772,013
Disposals	<u>(6,226,104)</u>	<u>(952,798)</u>	<u>(2,017,797)</u>	<u>(738,554)</u>	<u>(9,935,253)</u>
At 31 December 2002	<u>7,374,872</u>	<u>1,088,660</u>	<u>10,953,184</u>	<u>—</u>	<u>19,416,716</u>
<b>DEPRECIATION</b>					
At 1 January 2002	2,470,452	517,059	7,617,185	738,554	11,343,250
Provided for the year	1,748,224	289,655	2,135,138	—	4,173,017
Written back on disposals	<u>(3,217,351)</u>	<u>(636,208)</u>	<u>(1,483,776)</u>	<u>(738,554)</u>	<u>(6,075,889)</u>
At 31 December 2002	<u>1,001,325</u>	<u>170,506</u>	<u>8,268,547</u>	<u>—</u>	<u>9,440,378</u>
<b>NET BOOK VALUE</b>					
At 31 December 2002	<u><u>6,373,547</u></u>	<u><u>918,154</u></u>	<u><u>2,684,637</u></u>	<u><u>—</u></u>	<u><u>9,976,338</u></u>
At 31 December 2001	<u><u>6,089,290</u></u>	<u><u>625,796</u></u>	<u><u>4,521,620</u></u>	<u><u>—</u></u>	<u><u>11,236,706</u></u>

## 13. INTERESTS IN SUBSIDIARIES

	Company	
	2002 <i>HK\$</i>	2001 <i>HK\$</i>
Unlisted shares, at cost	286,338,109	286,338,109
Impairment losses	<u>(85,000,000)</u>	<u>(58,000,000)</u>
	201,338,109	228,338,109
Amounts due from subsidiaries	<u>29,813,723</u>	<u>31,209,323</u>
	<u><u>231,151,832</u></u>	<u><u>259,547,432</u></u>

# Notes to the Accounts *(Continued)*

For the year ended 31 December 2002

## 13. INTERESTS IN SUBSIDIARIES *(Continued)*

Details of the Company's principal subsidiaries as at 31 December 2002 are as follows:

Name of subsidiary	Place of incorporation and operation	Class of share held	Percentage of nominal value of issued share capital held by the Company		Principal activities
			Directly %	Indirectly %	
REXCAPITAL Financial Group Limited (Formerly OSK Asia Holdings Limited)	British Virgin Islands/ Hong Kong	Ordinary	100	—	Investment holding
REXCAPITAL Financial Investment Limited (Formerly OSK Asia Limited)	Hong Kong	Ordinary	—	100	Investment holding
REXCAPITAL Asset Management Limited (Formerly OSK Asia Asset Management Limited)	Hong Kong	Ordinary	—	100	Provision of investment advisory and fund management services
REXCAPITAL Corporate Finance Limited (Formerly OSK Asia Capital Limited)	Hong Kong	Ordinary	—	100	Consultancy services
REXCAPITAL Corporate Management Limited (Formerly OSK Asia Corporate Services Limited)	Hong Kong	Ordinary	—	100	Provision of corporate services
REXCAPITAL Finance Limited (Formerly OSK Asia Finance Limited)	Hong Kong	Ordinary	—	100	Money lending
REXCAPITAL Futures Limited (Formerly OSK Asia Futures Limited)	Hong Kong	Ordinary	—	100	Futures and commodities dealing
REXCAPITAL Nominees Limited (Formerly OSK Asia Nominee Limited)	Hong Kong	Ordinary	—	100	Provision of nominee services
REXCAPITAL Realty Limited (Formerly OSK Asia Realty Limited)	Hong Kong	Ordinary	—	100	Investment holding
REXCAPITAL Securities Limited (Formerly OSK Asia Securities Limited)	Hong Kong	Ordinary	—	100	Securities dealing and margin financing
REXCAPITAL Online Limited (Formerly OSK Asia Online Limited)	Hong Kong	Ordinary	—	100	Provision of online trading and information services

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

# Notes to the Accounts *(Continued)*

For the year ended 31 December 2002

## 14. INTANGIBLE ASSETS

	Three trading rights in the Stock Exchange <i>HK\$</i>	One trading right in the HKFE <i>HK\$</i>	Total <i>HK\$</i>
<b>THE GROUP</b>			
<b>COST</b>			
At 1 January 2002 and at 31 December 2002	4,042,800	149,600	4,192,400
<b>AMORTISATION</b>			
At 1 January 2002	288,208	27,427	315,635
Provided for the year	1,251,531	40,724	1,292,255
At 31 December 2002	1,539,739	68,151	1,607,890
<b>NET BOOK VALUE</b>			
At 31 December 2002	<u>2,503,061</u>	<u>81,449</u>	<u>2,584,510</u>
At 31 December 2001	<u>3,754,592</u>	<u>122,173</u>	<u>3,876,765</u>

## 15. INVESTMENT SECURITIES

	Group 2002 <i>HK\$</i>	2001 <i>HK\$</i>
Equity securities, at cost less impairment losses		
Overseas listed investment	—	4,099,689
Listed investment in Hong Kong	50,000	—
Unlisted investment	—	50,000
	<u>50,000</u>	<u>4,149,689</u>
Market value of listed investment	<u>280,566</u>	<u>3,971,574</u>

The overseas listed investment represented an approximately 7.48% interest in IT&e Limited (“IT&e”), a listed company in Australia, which is principally engaged in the provision of services in the information technology and e-commerce industries, held for long-term strategic purpose.

During the year, the Group accepted a conditional offer from IT&e for buying back all the Group’s interest in this company for the consideration of A\$1,036,427 (approximately HK\$4,575,000). The buy back transaction was completed during the year.

# Notes to the Accounts *(Continued)*

For the year ended 31 December 2002

## 16. STATUTORY DEPOSITS

	Group	
	2002 HK\$	2001 HK\$
The Stock Exchange		
— compensation fund	153,490	150,000
— fidelity fund	150,000	150,000
— teletext deposit	2,400	2,400
— stamp duty deposit	75,000	150,000
The HKFE		
— compensation fund deposit	100,000	100,000
Hong Kong Securities Clearing Company Limited		
— guarantee fund deposit	150,000	150,000
— admission fee	150,000	150,000
The Stock Exchange Options Clearing House Limited		
— reserve fund initial contribution	1,500,000	1,500,000
HKFE Clearing Corporation Limited		
— reserve fund deposit	1,500,000	1,500,000
	<u>3,780,890</u>	<u>3,852,400</u>

## 17. TRADE RECEIVABLES

	Group	
	2002 HK\$	2001 HK\$
Margin client receivables, net	43,895,097	106,600,856
Other client receivables	2,389,947	4,688,315
Broker receivables	4,327,512	4,076,088
Amounts due from clearing houses	19,151,330	10,808,790
Loan receivables	162,067,911	—
Loan interest receivables	4,700,413	—
	<u>236,532,210</u>	<u>126,174,049</u>

Margin client receivables are repayable on demand, bear interest at prevailing market rates and are secured by clients' securities listed on the Stock Exchange with a market value of approximately HK\$150 million as at 31 December 2002 (2001: HK\$326 million). No aged analysis is disclosed for margin client receivables as in the opinion of the Directors, the aged analysis does not give additional value in view of the nature of business of securities margin financing.

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



# Notes to the Accounts *(Continued)*

For the year ended 31 December 2002

## 17. TRADE RECEIVABLES *(Continued)*

Included in the above client receivables as at 31 December 2002 is the account of an associate of a Director of approximately HK\$4,047,000. Included in the above client receivables as at 31 December 2001 were the accounts of the shareholders, the Directors and their associates of approximately HK\$6,697,000. The amounts due from the Directors or their associates are of similar trading terms as the other clients.

The remaining maturity of loan receivables as at 31 December 2002 is as follows:

	Group	
	2002 HK\$	2001 HK\$
Three months or less	98,342,911	—
One year or less but over three months	63,725,000	—
	<u>162,067,911</u>	<u>—</u>

Included in the above loan receivables as at 31 December 2002 is a loan due from a company, in which a Director is a common director, of HK\$725,000 (2001: Nil). This loan receivable is unsecured, carries interest at Hong Kong prime rate plus 3% per annum and is not receivable before 27 July 2003.

## 18. OTHER INVESTMENTS

	Group	
	2002 HK\$	2001 HK\$
Equity securities, at fair value		
Listed securities in Hong Kong	87,750	20,902,550
Unlisted overseas unit trust	—	19,480,494
Unlisted unit trusts in Hong Kong	—	1,415,402
	<u>87,750</u>	<u>41,798,446</u>
Market value of listed securities in Hong Kong	<u>87,750</u>	<u>20,902,550</u>

## 19. BANK BALANCES AND CASH

	Group		Company	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Bank balances				
— general accounts	26,882,343	89,579,611	38,687	14,311
— trust and segregated accounts	32,298,717	94,017,536	—	—
Cash in hand	20,000	50,000	—	—
	<u>59,201,060</u>	<u>183,647,147</u>	<u>38,687</u>	<u>14,311</u>

# Notes to the Accounts *(Continued)*

For the year ended 31 December 2002

## 20. TRADE PAYABLES

	Group	
	2002 HK\$	2001 HK\$
Margin client payables	11,159,662	57,548,334
Other client payables	36,825,597	54,725,320
Broker payables	—	638,876
Amount due to a clearing house	18,511,406	6,916,839
	<u>66,496,665</u>	<u>119,829,369</u>

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

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

Included in the above client payables as at 31 December 2001 were the accounts of the shareholders, the Directors and their associates of approximately HK\$4,731,000. None of these balances existed as at 31 December 2002.

## 21. AMOUNT DUE TO A RELATED COMPANY

The amount is unsecured, interest-free and with no fixed repayment terms.

## 22. SHARE CAPITAL

	Ordinary shares of HK\$0.1 each	
	Number of shares	Amount HK\$
Authorised:		
At 31 December 2001 and at 31 December 2002	<u>2,000,000,000</u>	<u>200,000,000</u>
Issued and fully paid:		
At 31 December 2001 and at 31 December 2002	<u>600,000,000</u>	<u>60,000,000</u>

# Notes to the Accounts *(Continued)*

For the year ended 31 December 2002

## 23. SHARE OPTION SCHEME

By an ordinary resolution passed on the special general meeting held on 22 November 2002, the operation of the 2000 Scheme was terminated and the 2002 Scheme was adopted.

According to the 2002 Scheme, the Board may grant options to employees, executives or officers, directors of the Company or any of its subsidiaries and suppliers, consultants, legal or financial advisers, agents, customers, partners or business associates to subscribe for shares in the Company at a price not less than the highest of (a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (b) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of grant; and (c) the nominal value of a share, subject to a maximum of 10% of the issued share capital of the Company from time to time.

At 31 December 2001, the number of underlying shares in respect of which options had been granted under the 2000 Scheme was 30,000,000, representing 5% of the shares of the Company in issue at that date. Details of the share options are set out as follows:

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

Due to the unconditional cash offer by Kingly, all the share options granted under the 2000 Scheme have been renounced and cancelled after 25 July 2002.

At 31 December 2002, there were no outstanding options under the 2000 Scheme or the 2002 Scheme. No options under the 2000 Scheme and the 2002 Scheme were granted or exercised during the year.

# Notes to the Accounts *(Continued)*

For the year ended 31 December 2002

## 24. RESERVES

	Share premium HK\$	Capital reserve HK\$	Dividend reserve HK\$	Retained profit/ (accumulated losses) HK\$	Special reserve HK\$	Total HK\$
<b>THE GROUP</b>						
At 1 January 2001						
— as originally stated	43,651,967	22,282	—	74,286,386	127,580,856	245,541,491
— effect of adopting SSAP 9 (revised)	—	—	9,000,000	—	—	9,000,000
— as restated	43,651,967	22,282	9,000,000	74,286,386	127,580,856	254,541,491
Loss for the year	—	—	—	(46,746,459)	—	(46,746,459)
Dividend paid	—	—	(9,000,000)	—	—	(9,000,000)
At 31 December 2001	43,651,967	22,282	—	27,539,927	127,580,856	198,795,032
Loss for the year	—	—	—	(29,111,813)	—	(29,111,813)
At 31 December 2002	<u>43,651,967</u>	<u>22,282</u>	<u>—</u>	<u>(1,571,886)</u>	<u>127,580,856</u>	<u>169,683,219</u>
	Share premium HK\$	Dividend reserve HK\$	Accumulated losses HK\$	Contributed surplus HK\$	Total HK\$	
<b>THE COMPANY</b>						
At 1 January 2001						
— as originally stated	43,651,967	—	(366,041)	214,938,109	258,224,035	
— effect of adopting SSAP 9 (revised)	—	9,000,000	—	—	9,000,000	
— as restated	43,651,967	9,000,000	(366,041)	214,938,109	267,224,035	
Loss for the year	—	—	(58,907,339)	—	(58,907,339)	
Dividend paid	—	(9,000,000)	—	—	(9,000,000)	
At 31 December 2001	43,651,967	—	(59,273,380)	214,938,109	199,316,696	
Loss for the year	—	—	(29,183,017)	—	(29,183,017)	
At 31 December 2002	<u>43,651,967</u>	<u>—</u>	<u>(88,456,397)</u>	<u>214,938,109</u>	<u>170,133,679</u>	

The special reserve of the Group as at 31 December 2002 represents the difference between the nominal amount of the shares of the subsidiaries at the date on which they were acquired by the Group and the nominal amount of the shares issued for the acquisition, less dividend paid in 2000.

The contributed surplus account of the Company as at 31 December 2002 represents the difference between the consolidated net assets of REXCAPITAL Financial Group Limited (formerly OSK Asia Holdings Limited) at the date when its shares were acquired by the Company, and the nominal amount of the Company's shares issued for the acquisition, less dividend paid in 2000.

# Notes to the Accounts *(Continued)*

For the year ended 31 December 2002

## 24. RESERVES *(Continued)*

Under the Company Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of the contributed surplus, if:

- (a) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

In the opinion of the Directors, the Company's reserves available for distribution to shareholders as at the balance sheet date were as follows:

	2002 HK\$	2001 HK\$
Contributed surplus	214,938,109	214,938,109
Accumulated losses	<u>(88,456,397)</u>	<u>(59,273,380)</u>
	<u>126,481,712</u>	<u>155,664,729</u>

## 25. DISPOSAL OF INVESTMENT IN A SUBSIDIARY

On 27 December 2002, the Group disposed of its entire interest of 100% in Charwel Development Limited (formerly OSK Asia Management Limited) at a consideration of HK\$2. The disposal of the subsidiary had the following effects on the Group's assets and liabilities:

	HK\$
<b>Net liabilities disposed of:</b>	
Pledged deposits	1,930,215
Provision for compensation for early termination of lease	(1,930,215)
Accruals	<u>(12,000)</u>
Net liabilities	<u>(12,000)</u>
Total purchase price receivable	<u>2</u>

The subsidiary disposed of during the year has no significant impact on the Group's net cash from operating, investing and financing activities.

The subsidiary disposed of during the year has no significant contribution to the Group's turnover and operating loss.

# Notes to the Accounts *(Continued)*

For the year ended 31 December 2002

## 26. POTENTIAL DEFERRED TAXATION

### THE GROUP

The principal components of unrecognised deferred tax asset/(liability) are as follows:

	2002 HK\$	2001 HK\$
Accelerated depreciation allowances	(317,062)	(582,040)
Other timing differences	605,238	1,466,207
Tax losses	13,177,019	11,082,939
	<u>13,465,195</u>	<u>11,967,106</u>

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

The unprovided deferred taxation credit/(charge) for the year is as follows:

	2002 HK\$	2001 HK\$
Decelerated depreciation allowances	264,978	384,963
Other timing differences	(860,969)	1,239,691
Tax losses	2,094,080	3,838,590
	<u>1,498,089</u>	<u>5,463,244</u>

The effect of the proposed change in the corporate profits tax rate from 16% to 17.5%, effective for the 2003/04 fiscal year, will increase the unrecognised deferred tax asset/credit by HK\$1,262,362.

### THE COMPANY

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

## 27. CONTINGENT LIABILITIES

### THE GROUP

At 31 December 2002, the Group has no significant contingent liabilities (2001: Nil).

### THE COMPANY

The Company has issued an unlimited corporate guarantee to a bank for general facilities granted to a subsidiary. The Company has also issued guarantees to the extent of HK\$32,000,000 (2001: HK\$45,000,000) to another bank for general facilities granted to two subsidiaries. The facilities utilised by one of the subsidiaries as at 31 December 2002 amounted to approximately HK\$8.9 million (2001: Nil).

# Notes to the Accounts *(Continued)*

For the year ended 31 December 2002

## 28. COMMITMENTS

### THE GROUP

At 31 December 2002, the Group's future aggregate minimum lease payments under non-cancellable operating leases are payable as follows:

	2002 HK\$	2001 HK\$
Land and buildings		
Within one year	4,511,095	6,172,432
In the second to fifth year inclusive	<u>491,402</u>	<u>20,935,668</u>
	<u><u>5,002,497</u></u>	<u><u>27,108,100</u></u>

The Group leases office premises under operating leases. The leases run for an initial period of 1-5 years. The leases do not include any contingent rentals.

### THE COMPANY

At 31 December 2002, the Company did not have any commitments under non-cancellable operating leases.

Other than the operating lease commitments, the Group and the Company did not have any other capital commitments as at 31 December 2002 (2001: Nil).

## 29. PLEDGE OF ASSETS

At 31 December 2002, listed investments belonging to clients with total market value of HK\$27,776,500 (2001: Nil) were pledged to a bank to secure overdraft facilities granted to a subsidiary, REXCAPITAL Securities Limited. No overdraft facilities have been utilised by the subsidiary as at 31 December 2002.

No time deposit had been pledged by the Group as at 31 December 2002 (2001: HK\$1,930,215).

# Notes to the Accounts *(Continued)*

For the year ended 31 December 2002

## 30. TRANSACTIONS WITH RELATED PARTIES

Details of the Group's significant transactions with the following related parties during the year are as follows:

	2002 HK\$	2001 HK\$
Directors:		
Commission, fee and interest income	152,226	357,905
Interest paid	<u>2,133</u>	<u>95,378</u>
Shareholders and fellow subsidiaries:		
Commission, fee and interest income arising from futures and securities trading	387,968	442,131
Commission paid (net)	<u>56,016</u>	<u>97,753</u>
Associate of a Director:		
License fee paid for use of premises	<u>241,538</u>	<u>—</u>
A company, in which a Director is a common director:		
Commitment fee income	<u>25,000</u>	<u>—</u>

In the opinion of the Directors, including the independent non-executive directors, the above transactions were entered into in the Group's ordinary course of business and on normal commercial terms.

One of the subsidiaries, REXCAPITAL Corporate Management Limited, has entered into a license agreement with an associate of a Director ("licensor") to use the office premises leased by the licensor for an initial period of one year. The license fee is calculated according to the proportion of floor area occupied by the Group without any mark-up.

## 31. RETIREMENT BENEFIT SCHEME

The Group operates the MPF Scheme for all qualifying employees. The assets of the scheme are held separately from those of the Group in funds under the control of trustees. The retirement benefit costs charged to profit and loss account represent contributions payable to the scheme by the Group at rates specified in the rules of the scheme.



# Notes to the Accounts *(Continued)*

*For the year ended 31 December 2002*

## **32. COMPARATIVE FIGURES**

In the current year, the Company has adopted the new/revised SSAPs, as mentioned in note 2(a) to the accounts for the first time. The presentation in the current year's accounts has been modified in order to conform with the requirements of these standards. Comparative amounts have been restated in order to achieve a consistent presentation.