

## 1. CORPORATE INFORMATION

The principal activity of the Company is investment holding. Its subsidiaries and associates are principally engaged in investment holding, fund management, underwriting, insurance, corporate finance, securities broking, securities investment, treasury investment, money lending, banking and other financial services. On 17th January, 2002, the Group disposed of its entire interest in The Hongkong Chinese Bank, Limited ("HKCB") and its subsidiaries, which were mainly engaged in the provision of commercial banking, retail banking and other related financial services. On 27th May, 2002, the Group acquired an 85 per cent. equity interest in Finibanco (Macau), S.A.R.L. (now known as The Macau Chinese Bank Limited, "MCB"), a licensed credit institution under the Financial System Act of the Macao Special Administrative Region of the People's Republic of China, which is engaged in the provision of banking, financial and other related services.

In the opinion of the Directors, the ultimate holding company of the Company is Lippo Cayman Limited which is incorporated in the Cayman Islands.

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

The following new and revised SSAPs are effective for the first time for the current year's financial statements:

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

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

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated summary statement of changes in equity is now presented on page 20 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required.

SSAP 11 (Revised) 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 and associates are now translated into Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates ruling at the balance sheet date. The adoption of this SSAP 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 (q) to the financial statements.

## Notes to the Financial Statements

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

*(Continued)*

SSAP 15 (Revised) prescribes the basis for the presentation and content of 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 arising during the year 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. Further details of these changes are included in the accounting policy for “Foreign currencies” in Note 3 (q) to the financial statements. The format of the consolidated cash flow statement set out on page 22 of the financial statements has been revised in accordance with the new requirements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. This SSAP requires certain employee benefits like the accumulated paid leave entitlement to be accrued as at the balance sheet date. The adoption of this SSAP has had no material effect on the financial statements except that disclosures are now required in respect of the Company’s share option scheme, as detailed in Note 26 to the financial statements. These share option scheme disclosures are similar to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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 this SSAP.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of preparation

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

Following the disposal of HKCB, a former banking subsidiary of the Company, and its subsidiaries (the “HKCB Group”), the Group no longer follows the disclosure requirements as set out in the Supervisory Policy Manual “Financial Disclosure by Locally Incorporated Authorized Institutions” issued by the Hong Kong Monetary Authority. The disposal was completed on 17th January, 2002.

On 27th May, 2002, the Group acquired MCB, a new banking subsidiary of the Company. MCB is not required to follow the aforesaid disclosure requirements designed for Hong Kong banking industry.

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

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

Accordingly, interest income for banking operations during the year was classified under turnover which is newly defined as set out in Note 5 to the financial statements.

Due to the dissimilar nature of banking and non-banking operations, assets and liabilities of MCB (2001 — the HKCB Group) are shown separately in the consolidated balance sheet and classified under “Assets less liabilities attributable to banking operations”. Accordingly, instead of consolidating the cash flows in respect of the banking operations into the Group’s cash flow statement, the cash flows between the banking operations and the other Group companies are separately disclosed in the consolidated cash flow statement.

These changes resulted in the restatement of the Group’s profit and loss account, balance sheet and cash flow statement to conform with the current year’s presentation as set out on pages 18, 19 and 22, respectively. The respective financial information for the comparative amounts previously published in the Company’s 2001 annual report are set out in Note 37 to the financial statements.

#### (b) **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries for the year ended 31st December, 2002. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. With the exception of the balances referred to in Note 36(b) to the financial statements, significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests shown in the consolidated profit and loss account and the consolidated balance sheet represent the interests of outsider shareholders in the results and net assets of the Company’s subsidiaries, respectively.

#### (c) **Subsidiaries**

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

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

#### (d) **Associates**

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

## Notes to the Financial Statements

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

#### (d) Associates *(Continued)*

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 arising from the acquisition of associates is included as part of the Group's interests in associates.

The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in associates are treated as long term assets and are stated at cost less any impairment losses.

#### (e) Goodwill

Goodwill arising on acquisition of subsidiaries and associates 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 and amortised on the straight-line basis over its estimated useful life of not exceeding 20 years. Goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses which may be present. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

The above accounting policy has been adopted since 1st January, 2001. Prior to that date, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such goodwill to remain eliminated against consolidated reserves.

On disposal of subsidiaries and associates, 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. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is released and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, 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)*

#### (f) Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

#### (g) Fixed assets and depreciation

Fixed assets, other than investment properties, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost to that asset.

Depreciation of fixed assets is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land and buildings	Over the remaining lease terms
Leasehold improvements	Over the remaining lease terms
Furniture, fixtures and equipment	10% to 20%
Motor vehicles	20% to 25%

## Notes to the Financial Statements

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

#### (g) Fixed assets and depreciation *(Continued)*

The gain or loss on disposal or retirement of a fixed asset, other than investment properties, recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

#### (h) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, with any rental income being negotiated at arm's length. Such properties are stated at their open market values on the basis of annual professional valuations and are not depreciated except where the unexpired terms of the leases are 20 years or less, in which case the then carrying amounts are amortised on the straight-line basis over the respective remaining lease terms. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

Upon disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

#### (i) Investment securities

Investment securities are investments in equity securities, debt securities and investment funds which are intended to be held on a continuing strategic or long term purpose. Investment securities are included in the balance sheet at cost less impairment losses, on an individual investment basis.

When a decline in the fair value of a security below its carrying amount has occurred, the carrying amount of the security is reduced to its fair value, as determined by the Directors. The amount of the impairment is charged to the profit and loss account for the period in which it arises. When the circumstances and events which led to the impairment losses cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amounts of the impairment previously charged is credited to the profit and loss account to the extent of the amount previously charged.

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

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

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

#### (j) **Held-to-maturity securities** *(Continued)*

Premiums and discounts arising on acquisition of held-to-maturity securities are amortised over the period to maturity and are included as part of interest income. Profits or losses on realisation of held-to-maturity securities are accounted for in the profit and loss account as they arise.

#### (k) **Other investments in securities**

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

#### (l) **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:

- (i) rental income, in the period in which the properties are let and on the straight-line basis over the lease terms;
- (ii) dealings in securities and sale of investments, on the transaction dates when the relevant contract notes are exchanged;
- (iii) interest income, in proportion to time, taking into account the principal outstanding and the effective interest rate applicable;
- (iv) dividend income, when the shareholders' right to receive payment is established; and
- (v) commission income is accounted for, in the period when receivable, unless it is charged to cover the costs of a continuing service to, or risk borne for, customers, or is interest income in nature. In this case, commission income is recognised on a pro-rata basis over the relevant period.

#### (m) **Deferred tax**

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

#### (n) **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.

## Notes to the Financial Statements

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

#### (n) Provisions (Continued)

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

#### (o) Employee benefits

##### *Paid leave entitlement*

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 earned during the year by the employees and carried forward at the balance sheet date.

##### *Retirement benefits costs*

Employer's contributions made by the Group to the Mandatory Provident Fund Schemes operated for the benefits of employees of the Group as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are charged to the profit and loss account when incurred. The assets of the schemes are held separately from those of the Group in independently administered funds.

##### *Share option 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 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.

#### (p) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.



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

#### (q) 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 profit and loss account.

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

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

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 and associates and the cash flows of overseas subsidiaries were translated to Hong Kong dollars at the exchange rates ruling at the balance sheet date. These changes have had no material effect on the financial statements.

#### (r) Cash and cash equivalents

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

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

#### (s) 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.

## Notes to the Financial Statements

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

#### **(t) Dividends and distributions**

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

Interim dividends and distributions are simultaneously proposed and declared because the Company's Memorandum of Association and Bye-laws grant the Directors the authority to declare interim dividends and distributions. Consequently, interim dividends and distributions are recognised immediately as a liability when they are proposed and declared.

#### **(u) Accounting for banking operations**

Banking operations represent operations carried out through MCB since its acquisition by the Group in May 2002 and the HKCB Group up to its disposal by the Group in January 2002. The principal accounting policies which are specific to the banking operations are described below:

##### *(i) Advances to customers, banks and other financial institutions*

Advances to customers, banks and other financial institutions are reported in the balance sheet at the principal amount outstanding net of provisions for bad and doubtful debts. Advances to banks and other financial institutions include placements with banks and other financial institutions of more than one year.

All advances are recognised when cash is advanced to borrowers.

Cash rebates granted in relation to residential mortgage loans are capitalised and amortised to the profit and loss account on the straight-line basis over the terms of the loans, or, where relevant, the early repayment penalty period.

##### *(ii) Finance leases and hire purchase contracts*

The amounts due from customers in respect of finance leases and hire purchase contracts are included in the balance sheet at net investment which represents the total rentals receivable under finance leases and hire purchase contracts less unearned income. Finance income implicit in the rentals receivable is credited to the profit and loss account over the lease period so as to produce an approximately constant periodic rate of return on the net investment for each accounting period.

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

#### (u) Accounting for banking operations *(Continued)*

##### (iii) *Off-balance sheet financial instruments*

Off-balance sheet financial instruments arise from forward and swap transactions undertaken by the banking operations in the foreign exchange, interest rate and equity markets. The accounting for these instruments is dependent upon whether the transactions are undertaken for trading purposes or to hedge risk.

Transactions undertaken for trading purposes are marked to market and the gain or loss arising is recognised in the profit and loss account. Transactions designated as hedges are valued on an equivalent basis to the assets, liabilities or net positions that they are hedging. Any profit or loss is recognised in the profit and loss account on the same basis as that arising from the related assets, liabilities or net positions.

Unrealised gains and losses on transactions which are marked to market are included under assets and liabilities, respectively, in the balance sheet.

### 4. SEGMENT INFORMATION

Segment information is presented by way of business segment as the primary reporting format and geographical segment as the secondary reporting format.

The Group's operating businesses are structured and managed separately, according to the nature of their operations. The Group's business segments represent different strategic business units which are subject to risks and returns that are different from those of the other business segments. In respect of geographical segment reporting, turnover is based on the location of customers, and assets and capital expenditure are based on the location of the assets. Descriptions of the business segments are as follows:

- (a) the treasury investment segment includes investments in cash and bond markets;
- (b) the securities investment segment includes dealings in securities and disposals of investments;
- (c) the money lending segment includes the provision of finance;
- (d) the corporate finance and securities broking segment provides securities and futures brokerage, investment banking, underwriting and other related advisory services;
- (e) the banking businesses segment engages in the provision of commercial and retail banking;

## Notes to the Financial Statements

### 4. SEGMENT INFORMATION (Continued)

- (f) the insurance business segment includes the underwriting of general insurance business and the provision of general insurance agency services;
- (g) the fund management segment includes the provision of fund management services; and
- (h) the “other” segment comprises principally the letting of properties.

An analysis of the Group’s segment revenue and segment results by business segment and geographical segment is set out below:

#### Business segment Group

	Treasury investment	Securities investment	Money lending	Corporate finance and securities broking	Banking businesses	Insurance business	Fund management	Other	Inter- segment elimination	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue										
External	55,257	59,261	6,979	55,020	31,225	48,227	2,783	1,535	—	260,287
Inter-segment	759	—	41	—	277	—	—	58	(1,135)	—
Total	56,016	59,261	7,020	55,020	31,502	48,227	2,783	1,593	(1,135)	260,287
Segment results	55,830	(5,766)	161	(30,846)	1,244	64	(89,295)	1,147	293	(67,168)
Unallocated corporate expenses										(43,390)
Share of results of associates	—	—	—	82	—	—	—	(215)	—	(133)
Loss before tax										(110,691)
Tax										(427)
Loss before minority interests										(111,118)
Minority interests										(250)
Net loss from ordinary activities attributable to shareholders										(111,368)

## Notes to the Financial Statements

### 4. SEGMENT INFORMATION (Continued)

#### Business segment (Continued)

##### Group

2002	Treasury investment HK\$'000	Securities investment HK\$'000	Money lending HK\$'000	Corporate finance and securities broking HK\$'000	Banking businesses HK\$'000	Insurance business HK\$'000	Fund management HK\$'000	Other HK\$'000	Inter- segment elimination HK\$'000	Consolidated HK\$'000
Segment assets	2,171,955	298,944	3,775	583,127	212,852	28,085	21,769	71,336	—	3,391,843
Interests in associates	—	—	—	1,333	—	—	—	62,784	—	64,117
Unallocated assets										25,247
Total assets										3,481,207
Segment liabilities	—	—	—	500,898	—	26,358	138,423	492	—	666,171
Unallocated liabilities										8,233
Total liabilities										674,404
Other information:										
Capital expenditure	—	—	—	—	—	(1)	(17)	—	—	(18)
Depreciation	(194)	(79)	(102)	(2,098)	(2,051)	(45)	(18)	(22)	—	(4,609)
Provision for bad and doubtful debts relating to:										
Banking operations	—	—	(2,193)	—	(1,832)	—	—	—	—	(4,025)
Non-banking operations	—	—	—	(19,734)	—	—	(117)	—	—	(19,851)
Provision for loss on guaranteed return arrangement for fund management	—	—	—	—	—	—	(88,290)	—	—	(88,290)
Amortisation of goodwill	—	—	—	—	(1,890)	—	(204)	—	—	(2,094)
Write-back of deficit on revaluation of investment property	—	—	—	—	—	—	—	748	—	748
Loss on disposal of subsidiaries	—	—	(1,480)	—	(8,950)	(93)	—	(22)	—	(10,545)
Unallocated:										
Capital expenditure										(2,485)
Depreciation										(16)
Impairment loss of goodwill										(3,330)

## Notes to the Financial Statements

### 4. SEGMENT INFORMATION (Continued)

#### Business segment (Continued)

#### Group

2001	Treasury	Securities	Money	Corporate finance and securities broking	Banking	Insurance	Fund	Other	Inter- segment elimination	Consolidated
	investment	investment	lending	HK\$'000	businesses	business	management	HK\$'000	HK\$'000	HK\$'000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue										
External	15,686	84,284	222,202	68,916	443,988	48,510	2,861	15,102	—	901,549
Inter-segment	29,462	—	2,465	—	21,433	—	—	—	(53,360)	—
Total	45,148	84,284	224,667	68,916	465,421	48,510	2,861	15,102	(53,360)	901,549
Segment results	31,836	(15,627)	63,636	9,460	41,391	124	(71,765)	13,645	140	72,840
Unallocated corporate expenses										(254,986)
Share of results of associates	—	—	—	—	—	—	—	32	—	32
Loss before tax										(182,114)
Tax										(10,191)
Loss before minority interests										(192,305)
Minority interests										(175)
Net loss from ordinary activities attributable to shareholders										(192,480)

## Notes to the Financial Statements

### 4. SEGMENT INFORMATION (Continued)

#### Business segment (Continued)

##### Group

2001	Treasury investment HK\$'000	Securities investment HK\$'000	Money lending HK\$'000	Corporate finance and securities broking HK\$'000	Banking businesses HK\$'000	Insurance business HK\$'000	Fund management HK\$'000	Other HK\$'000	Inter- segment elimination HK\$'000	Consolidated HK\$'000
Segment assets	548,933	29,827	1,081,337	386,342	3,570,142	39,257	16,305	8,322	(1,186,667)	4,493,798
Interests in associates	—	—	—	1,252	—	—	—	54,098	—	55,350
Unallocated assets										38,170
Total assets										4,587,318
Segment liabilities	—	—	541,233	286,359	756,753	37,594	72,475	—	(1,228,753)	465,661
Unallocated liabilities										35,967
Total liabilities										501,628
Other information:										
Capital expenditure	—	—	(2,114)	(1,862)	(15,126)	—	—	(1)	—	(19,103)
Depreciation	(350)	(778)	(3,236)	(1,388)	(41,600)	—	(11)	(64)	—	(47,427)
Provision for bad and doubtful debts relating to:										
Banking operations	—	—	(47,948)	—	(179,883)	—	—	—	—	(227,831)
Non-banking operations	—	—	(2,299)	(2,376)	—	—	—	—	—	(4,675)
Provision for loss on guaranteed return arrangement for fund management	—	—	—	—	—	—	(72,242)	—	—	(72,242)
Deficit on revaluation of investment property	—	—	—	—	(4,800)	—	—	—	—	(4,800)
Unallocated :										
Capital expenditure										(12)
Depreciation										(40)
Impairment loss of goodwill										(137,621)

## Notes to the Financial Statements

### 4. SEGMENT INFORMATION (Continued)

#### Geographical segment

##### Group

	Hong Kong	Other	Consolidated
2002	HK\$'000	HK\$'000	HK\$'000
Revenue	240,983	19,304	260,287
Segment results	(80,545)	13,377	(67,168)
Segment assets	2,702,979	714,111	3,417,090
Interest in associates	54,222	9,895	64,117
Total assets			3,481,207
Capital expenditure	(2,503)	—	(2,503)

No geographical segment was presented in prior year as less than 10 per cent. of the Group's revenue, results, assets and capital expenditure are attributable to locations outside Hong Kong.

### 5. TURNOVER

Turnover represents the gross income on treasury investment which includes interest income on bank deposits and held-to-maturity securities, gross proceeds from sales of investments, gross income from underwriting and securities broking, interest and other income from money lending business, gross income from fund management, gross premiums from insurance business, dividend income and net interest income, commissions, dealing income and other revenues from banking subsidiaries, after elimination of all significant intra-group transactions.

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

	Group	
	2002	Restated 2001
	HK\$'000	HK\$'000
Treasury investment	55,257	15,686
Securities investment	59,261	84,284
Interest and other income from money lending business	6,979	222,202
Corporate finance and securities broking	55,020	68,916
Banking businesses	31,225	443,128
Insurance business	48,227	48,510
Fund management	2,783	2,861
Other	1,535	8,389
	<b>260,287</b>	<b>893,976</b>



### 5. TURNOVER (Continued)

Turnover attributable to banking businesses during the year represents turnover generated from MCB since its acquisition by the Group in May 2002 and HKCB up to its disposal by the Group in January 2002 (2001 — HKCB). Turnover attributable to banking businesses is analysed as follows:

	<b>Group</b>	
	<b>2002</b>	Restated 2001
	<b>HK\$'000</b>	HK\$'000
Interest income	<b>40,718</b>	1,042,780
Interest expenses	<b>(14,918)</b>	(680,772)
Commission income	<b>3,847</b>	46,147
Commission expenses	<b>(274)</b>	(6,612)
Net dealing income and other revenues	<b>1,852</b>	41,585
	<b>31,225</b>	443,128

### 6. PROVISION FOR LOSS ON GUARANTEED RETURN ARRANGEMENT FOR FUND MANAGEMENT

A subsidiary of the Group has been appointed as an investment manager for a fund. In accordance with the management agreement, such fund was managed on a discretionary basis with a fixed annual guaranteed return provided by the Company. During the current and prior years, the performance of the fund was adversely affected by the volatile stock markets and uncertain economic environment. As a result, a provision has been made for the guarantee arrangement. Notice has been given by the Group to terminate the management agreement and the return guarantee with effect from June 2003.

### 7. LOSS ON DISPOSAL OF SUBSIDIARIES

On 17th January, 2002, the Group completed the disposal of its entire interest in the HKCB Group for a total consideration of HK\$4.2 billion, which gave rise to a net loss on disposal of subsidiaries of HK\$10,545,000. HKCB and its subsidiaries contributed turnover of HK\$30,194,000 (2001 — HK\$660,106,000), profit before tax of HK\$10,929,000 (2001 — HK\$30,848,000) and profit after tax of HK\$10,721,000 (2001 — HK\$29,337,000) to the Group during the year.

## Notes to the Financial Statements

### 8. LOSS FROM OPERATING ACTIVITIES

Loss from operating activities is arrived at after crediting/(charging):

	Group	
	2002	Restated 2001
	HK\$'000	HK\$'000
Gross and net rental income	<u>296</u>	5,758
Staff costs — <i>Note (a)</i> :		
Wages and salaries	<u>(64,983)</u>	(263,388)
Retirement benefits costs	<u>(3,017)</u>	(6,166)
<i>Less: Forfeited contributions</i>	<u>374</u>	219
Net retirement benefits costs	<u>(2,643)</u>	(5,947)
Total staff costs	<u>(67,626)</u>	(269,335)
Interest income — <i>Note (b)</i> :		
Listed investments	9,579	301
Unlisted investments	2,353	—
Other	43,399	15,686
Dividend income from listed investments	181	2,422
Provision for impairment losses on held-to-maturity securities:		
Listed	—	(1,802)
Unlisted	(273)	(5,518)
Net realised and unrealised holding gains/(losses) on other investments in securities:		
Listed	(3,771)	8,717
Unlisted	911	(769)

## Notes to the Financial Statements

### 8. LOSS FROM OPERATING ACTIVITIES (Continued)

Loss from operating activities is arrived at after crediting/(charging): (Continued)

	<b>Group</b>	
	<b>2002</b>	Restated 2001
	<b>HK\$'000</b>	HK\$'000
Depreciation:		
Banking operations	<b>(2,146)</b>	(44,836)
Other	<b>(2,479)</b>	(2,631)
Loss on disposal of fixed assets:		
Banking operations	—	(546)
Other	<b>(10)</b>	—
Exchange gains — net	<b>622</b>	—
Auditors' remuneration	<b>(901)</b>	(3,171)
Minimum lease payments under operating lease rentals in respect of land and buildings	<b>(12,188)</b>	(25,490)
Amortisation of goodwill arising from acquisition of subsidiaries	<b>(2,094)</b>	—

Note:

- (a) The amounts include the Directors' emoluments disclosed in Note 9 to the financial statements.
- (b) The amounts exclude income relating to banking operations of the Group.

## Notes to the Financial Statements

### 9. DIRECTORS' EMOLUMENTS

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

	Group	
	2002 HK\$'000	2001 HK\$'000
Executive Directors:		
Directors' fees	—	120
Basic salaries, housing and other allowances and benefits in kind	6,099	7,019
Bonuses paid and payable	9,685	35,912
Retirement benefits costs	40	512
	<b>15,824</b>	43,563
Non-executive Directors:		
Directors' fees	240	182
	<b>16,064</b>	43,745

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

Emoluments bands (HK\$):	Group	
	2002 Number of Directors	2001 Number of Directors
Nil — 1,000,000	9	8
1,000,001 — 1,500,000	1	—
1,500,001 — 2,000,000	—	1
2,500,001 — 3,000,000	1	—
3,500,001 — 4,000,000	1	—
7,500,001 — 8,000,000	1	—
41,500,001 — 42,000,000	—	1
	<b>13</b>	10

Emoluments paid to the independent non-executive Directors amounted to HK\$240,000 (2001 — HK\$182,000) during the year.

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

### 10. SENIOR EXECUTIVES' EMOLUMENTS

The five highest paid individuals included three Directors (2001 — one), details of whose emoluments are set out in Note 9 to the financial statements. The emoluments of the remaining two (2001 — four) non-director highest paid employees are as follows:

	Group	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Basic salaries, housing and other allowances and benefits in kind	3,533	11,364
Bonuses paid and payable	3,150	21,500
Retirement benefits costs	227	442
	<b>6,910</b>	33,306

The number of non-director highest paid employees whose emoluments fell within the following bands is as follows:

Emoluments bands ( <i>HK\$</i> ):	Group	
	2002 Number of individuals	2001 Number of individuals
2,500,001 — 3,000,000	1	—
3,000,001 — 3,500,000	—	2
3,500,001 — 4,000,000	—	1
4,000,001 — 4,500,000	1	—
23,000,001 — 23,500,000	—	1
	<b>2</b>	4

## Notes to the Financial Statements

### 11. RETIREMENT BENEFITS COSTS

The Group has operated several defined contribution schemes pursuant to the Occupational Retirement Schemes Ordinance which were replaced by the Mandatory Provident Fund schemes (the "MPF schemes") in December 2000 when the Mandatory Provident Fund Schemes Ordinance became effective. The assets of the schemes are held separately from those of the Group in independently administered funds.

Contributions made to the MPF schemes are based on a percentage of the employees' relevant income and are charged to the profit and loss account as they become payable in accordance with the rules of the schemes. The Group's employer contributions vest fully with the employees when contributed into the schemes except for the Group's employer voluntary contributions forfeited when the employees leave employment prior to fully vesting in such contributions, which can be used to reduce the amount of future employer contributions or to offset against future administration expenses, in accordance with the rules of the schemes.

During the year, the amounts of forfeited employer contributions under the MPF schemes utilised to reduce the amount of employer contributions or for payments of administrative expenses amounted to HK\$374,000 (2001 — HK\$219,000). The amounts of forfeited voluntary contributions available to offset future employer contributions to the above schemes were not material at the year end. The retirement benefit scheme costs charged to the profit and loss account represent employer contributions paid and payable by the Group to the schemes and amounted to HK\$2,643,000 (2001 — HK\$5,947,000).

### 12. FINANCE COSTS

	<b>Group</b>	
	<b>2002</b>	Restated 2001
	<b>HK\$'000</b>	HK\$'000
Interest on bank loans wholly repayable within five years	<b>4,228</b>	19,211

*Note:* The above amounts exclude interest expenses incurred by banking subsidiaries of the Group.

### 13. TAX

	<b>Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
The Company and its subsidiaries:		
Provision for the year:		
Hong Kong	<b>203</b>	10,192
Overseas	<b>5</b>	—
	<b>208</b>	10,192
Under/(Over) provisions for prior years:		
Hong Kong	<b>219</b>	259
Overseas	<b>—</b>	(260)
	<b>219</b>	(1)
Tax charge for the year	<b>427</b>	10,191

Hong Kong profits tax has been provided for at the rate of 16 per cent. (2001 — 16 per cent.) on the estimated assessable profits arising in Hong Kong for the year. Overseas taxes have been calculated on the estimated assessable profits for the year at the tax rates prevailing in the countries in which the Group operates based on existing legislation, interpretations and practices in respect thereof.

No provision for deferred tax has been made because the net effect of timing differences was not material at the balance sheet date (2001 — Nil). As at 31st December, 2002, the Group had no material unrecognised deferred tax assets (2001 — HK\$92 million) in respect of tax losses and unabsorbed capital allowances.

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

The net loss from ordinary activities attributable to shareholders includes the loss for the year dealt with in the financial statements of the Company amounted to HK\$89,688,000 (2001 — HK\$89,651,000).

### 15. LOSS PER SHARE

#### (a) Basic loss per share

Basic loss per share is calculated based on (i) the net loss from ordinary activities attributable to shareholders of HK\$111,368,000 (2001 — HK\$192,480,000); and (ii) the number of 1,351,537,000 shares (2001 — 1,351,537,000 shares) in issue during the year.

## Notes to the Financial Statements

### 15. LOSS PER SHARE (Continued)

#### (b) Diluted loss per share

No diluted loss per share is presented for the year ended 31st December, 2002 as there were no dilutive potential ordinary shares. The diluted loss per share for the year ended 31st December, 2001 was calculated based on (i) the net loss from ordinary activities attributable to shareholders of HK\$192,480,000; and (ii) the adjusted weighted average number of 1,351,659,000 shares after taking into account the weighted average number of 122,000 ordinary shares which are deemed to have been issued at no consideration on exercise of the share options at the beginning of the year.

### 16. DIVIDEND AND DISTRIBUTIONS

	<b>Group and Company</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	<b>HK\$'000</b>
Interim distribution, declared and paid, of HK1.5 cents (2001 — interim dividend, HK1.5 cents) per ordinary share	<b>20,273</b>	20,273
Special interim distribution, declared and paid, of HK\$1.45 (2001 — Nil) per ordinary share	<b>1,959,729</b>	—
	<b>1,980,002</b>	20,273
Final distribution, proposed, of HK3 cents (2001 — HK3 cents) per ordinary share	<b>40,496</b>	40,546

### 17. GOODWILL

#### Group

	<b>HK\$'000</b>
<b>Cost:</b>	
Additions during the year and at 31st December, 2002	<b>69,305</b>
<b>Accumulated amortisation and impairment loss:</b>	
Amortisation provided during the year	<b>2,094</b>
Impairment loss provided during the year	<b>3,330</b>
At 31st December, 2002	<b>5,424</b>
<b>Net book value:</b>	
At 31st December, 2002	<b>63,881</b>



## 18. FIXED ASSETS

### Group

	Leasehold improvements, furniture, fixtures, equipment and motor vehicles <i>HK\$'000</i>
<hr/>	
<b>Cost:</b>	
At 1st January, 2002 (Restated)	43,503
Additions during the year	2,503
Acquisition of subsidiaries	336
Disposals during the year	(134)
Exchange adjustments	(23)
<hr/>	
At 31st December, 2002	<u>46,185</u>
 <b>Accumulated depreciation:</b>	
At 1st January, 2002 (Restated)	39,996
Provision for the year	2,479
Acquisition of subsidiaries	307
Disposals during the year	(124)
Exchange adjustments	(23)
<hr/>	
At 31st December, 2002	<u>42,635</u>
 <b>Net book value:</b>	
At 31st December, 2002	<u><u>3,550</u></u>
At 31st December, 2001 (Restated)	<u><u>3,507</u></u>

## Notes to the Financial Statements

### 18. FIXED ASSETS (Continued)

#### Company

	Furniture, fixtures, equipment and motor vehicles <i>HK\$'000</i>
<b>Cost:</b>	
At 1st January, 2002 (Restated)	627
Additions during the year	353
Disposals during the year	(55)
At 31st December, 2002	925
<b>Accumulated depreciation:</b>	
At 1st January, 2002 (Restated)	624
Provision for the year	16
Disposals during the year	(55)
At 31st December, 2002	585
<b>Net book value:</b>	
At 31st December, 2002	340
At 31st December, 2001 (Restated)	3

### 19. INVESTMENT PROPERTY

	Group	
	2002	Restated 2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Freehold land and buildings situated outside Hong Kong:		
Balance at beginning of the year	6,786	7,006
Surplus on revaluation	748	—
Exchange adjustments	(198)	(220)
Balance at end of the year	7,336	6,786

Based on a professional valuation as at 31st December, 2002 made by Professional Asset Valuers, Incorporated, property appraisers, the investment property was valued on an open market, existing use basis at HK\$7,336,000 (2001 — HK\$6,786,000).

## Notes to the Financial Statements

### 20. INTERESTS IN ASSOCIATES

	<b>Group</b>	
	<b>2002</b>	Restated 2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net assets in unlisted companies	<b>61,789</b>	58,771
Goodwill on acquisition less amortisation ( <i>Note</i> )	<b>5,749</b>	—
Due from associates	<b>1,173</b>	1,173
	<b>68,711</b>	59,944
Provisions for impairment losses	<b>(4,594)</b>	(4,594)
	<b>64,117</b>	55,350
Share of post-acquisition reserves at the balance sheet date	<b>23,086</b>	23,219

	<b>Company</b>	
	<b>2002</b>	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	<b>53,913</b>	—

The share of post-acquisition reserves represents that portion attributable to the Group before minority interests therein. The balances with the associates are unsecured, interest-free and have no fixed terms of repayment.

Details of the principal associates are set out on page 78.

*Note:*

<b>Group</b>	Goodwill on acquisition of an associate <i>HK\$'000</i>
<b>Cost:</b>	
Additions during the year and at 31st December, 2002	<u>6,087</u>
<b>Accumulated amortisation:</b>	
Amortisation provided during the year and at 31st December, 2002	<u>(338)</u>
<b>Net book value:</b>	
At 31st December, 2002	<u>5,749</u>

## Notes to the Financial Statements

### 21. INVESTMENT SECURITIES

	Group		Company	
	2002	Restated 2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted equity securities, at cost	75,000	—	—	—
Unlisted debt securities, at cost	3,165	3,090	3,165	3,090
Unlisted investment funds, at cost	54,681	—	—	—
	<b>132,846</b>	3,090	<b>3,165</b>	3,090

### 22. HELD-TO-MATURITY SECURITIES

	Group		Company	
	2002	Restated 2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Debt securities, at amortised cost:				
Listed outside Hong Kong	207,540	7,870	7,870	7,870
Unlisted	158,630	3,928	81,796	3,928
	<b>366,170</b>	11,798	<b>89,666</b>	11,798
Provision for impairment losses	(11,018)	(10,745)	(11,018)	(10,745)
	<b>355,152</b>	1,053	<b>78,648</b>	1,053
Market value of listed securities at 31st December	<b>208,050</b>	1,053	<b>975</b>	1,053

## Notes to the Financial Statements

### 23. ASSETS LESS LIABILITIES ATTRIBUTABLE TO BANKING OPERATIONS

Due to the dissimilar nature of banking and non-banking operations, assets less liabilities attributable to banking operations were shown separately in the consolidated financial statements. The financial information in respect of banking operations shown below is based on the audited financial statements of MCB for the year ended 31st December, 2002.

The comparative balances represented the financial information in respect of the banking operations was based on the consolidated financial statements of HKCB for the year ended 31st December, 2001.

	Note	Group	
		2002 HK\$'000	Restated 2001 HK\$'000
Cash and short-term funds		70,535	5,769,338
Placements with banks and other financial institutions maturing between one and twelve months		11,467	37,847
Certificates of deposit held		—	605,402
Other investments in securities	(a)	—	168,462
Advances, trade bills and other accounts		166,719	11,856,726
Held-to-maturity securities	(b)	9,757	464,245
Investment securities	(c)	—	22,746
Interests in associates		—	197
Fixed assets	(d)	895	1,132,623
		<b>259,373</b>	20,057,586
Deposits and balances of banks and other financial institutions		(3)	(60,880)
Current, fixed, savings and other deposits of customers		(109,010)	(15,346,636)
Certificates of deposit issued		—	(990,607)
Other accounts and provisions		(1,389)	(357,499)
		<b>(110,402)</b>	(16,755,622)
		<b>148,971</b>	3,301,964

## Notes to the Financial Statements

### 23. ASSETS LESS LIABILITIES ATTRIBUTABLE TO BANKING OPERATIONS (Continued)

Note:

#### (a) Other investments in securities

	Group	
	2002 HK\$'000	Restated 2001 HK\$'000
Unlisted debt securities, at fair value	—	3,874
Equity securities, at fair value:		
Listed in Hong Kong	—	7,112
Unlisted	—	123,697
	—	130,809
Unlisted investment funds, at fair value	—	33,779
	—	168,462

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

	Group	
	2002 HK\$'000	Restated 2001 HK\$'000
Debt securities, at amortised cost:		
Listed in Hong Kong	—	100,707
Listed outside Hong Kong	9,757	98,590
Unlisted	—	293,565
	9,757	492,862
Provision for impairment losses	—	(28,617)
	9,757	464,245
Market value of listed investments at 31 December	9,949	177,549

#### (c) Investment securities

	Group	
	2002 HK\$'000	Restated 2001 HK\$'000
Unlisted debt securities, at cost	—	8,500
Unlisted equity securities, at cost	—	14,246
	—	22,746

### 23. ASSETS LESS LIABILITIES ATTRIBUTABLE TO BANKING OPERATIONS (Continued)

Note: (Continued)

(d) Fixed assets

Group	Investment properties <i>HK\$'000</i>	Bank premises and other leasehold properties <i>HK\$'000</i>	Furniture, fixtures, equipment and motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Cost or valuation:</b>				
At 1st January, 2002	95,595	1,075,249	252,107	1,422,951
Acquisition of a subsidiary	—	—	6,311	6,311
Disposals during the year	(95,595)	(1,075,249)	(252,107)	(1,422,951)
Additions during the year	—	—	55	55
At 31st December, 2002	—	—	6,366	6,366
<b>Accumulated depreciation:</b>				
At 1st January, 2002	—	137,632	152,696	290,328
Acquisition of a subsidiary	—	—	5,219	5,219
Charge for the year	—	861	1,285	2,146
Disposals during the year	—	(138,493)	(153,729)	(292,222)
At 31st December, 2002	—	—	5,471	5,471
<b>Net book value:</b>				
At 31st December, 2002	—	—	895	895
At 31st December, 2001	95,595	937,617	99,411	1,132,623

## Notes to the Financial Statements

### 24. OTHER INVESTMENTS IN SECURITIES

	Group		Company	
	2002 HK\$'000	Restated 2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Listed equity securities, at market value:				
Hong Kong	59,634	22,009	48,950	—
Overseas	16,284	454	11,897	—
	<b>75,918</b>	22,463	<b>60,847</b>	—
Unlisted equity securities, at fair value	—	22	—	—
	<b>75,918</b>	22,485	<b>60,847</b>	—
Debt securities:				
Listed outside Hong Kong, at market value	3,120	3,199	3,120	3,199
Unlisted, at fair value	39	—	—	—
	<b>3,159</b>	3,199	<b>3,120</b>	3,199
Unlisted investment funds, at fair value	87,021	—	—	—
	<b>166,098</b>	25,684	<b>63,967</b>	3,199



## Notes to the Financial Statements

### 25. DEBTORS, PREPAYMENTS AND DEPOSITS

Included in the balances are trade debtors with the aged analysis as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Outstanding balances with ages:		
Repayable on demand	195,474	51,766
Within 30 days	2,624	2,899
Between 31 and 60 days	406	1,510
Between 61 and 90 days	4,122	3,503
Between 91 and 180 days	3,169	1,467
Over 180 days	13,669	20,337
	<b>219,464</b>	<b>81,482</b>

Trading terms with customers are either on cash basis or credit. For those customers who trade on credit, invoices are normally payable within 90 days. Outstanding balances with ages over 180 days include claims receivable in respect of the Group's insurance underwriting business which is broadly consistent with the claims payable included in the trade creditors of the Group. Credit limits are set for customers. The Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk. Overdue balances are regularly reviewed by senior management.

### 26. SHARE CAPITAL

#### Shares

	Group and Company	
	2002 HK\$'000	2001 HK\$'000
<b>Authorised:</b>		
2,000,000,000 (2001 — 2,000,000,000) ordinary shares of HK\$1.00 each	<b>2,000,000</b>	2,000,000
<b>Issued and fully paid:</b>		
1,351,537,094 (2001 — 1,351,537,094) ordinary shares of HK\$1.00 each	<b>1,351,537</b>	1,351,537

## Notes to the Financial Statements

### 26. SHARE CAPITAL (Continued)

#### Share options

SSAP 34 was adopted during the year, as explained in Note 2 to the financial statements. As a result, the following 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 required by the Listing Rules.

In order to motivate the employees of the Group, the Company had adopted a share option scheme for employees (the "Share Option Scheme") on 21st September, 1992 whereby the Directors of the Company were authorised, at their discretion, to grant to any full time employees of the Group, including full time Executive Directors, options to subscribe for shares in the Company. The exercise price of options was determined by the Board and should not be less than the higher of the nominal value of the shares and 80 per cent. of the average closing prices of the shares on The Stock Exchange of Hong Kong Limited for the five trading days immediately preceding the date of offer of the options. The options vested after six months and were exercisable for a period expiring on the tenth anniversary date after the options were granted and accepted.

The maximum number of shares in respect of which options might be granted under the Share Option Scheme should not exceed 10 per cent. of the number of issued shares of the Company from time to time excluding the aggregate number of shares which were issued pursuant to the Share Option Scheme, and the maximum number of shares in respect of which options might be granted in any one financial year should not exceed 5 per cent. of the total number of issued shares of the Company from time to time. In addition, the maximum number of shares in respect of which options might be granted under the Share Option Scheme to any grantee should not exceed 25 per cent. of the number of shares of the Company subject to the Share Option Scheme at the time of grant. The consideration for the grant was HK\$1.00 which had to be paid on acceptance to the Company by the grantee within 28 days after the date of offer of the options.

As at 1st January, 2002, none of the then Directors, chief executive or substantial shareholders of the Company or their respective associates had any interests in options to subscribe for shares in the Company, whilst employees of the Group had the following interests in options to subscribe for shares in the Company. Each option gave the holder the right to subscribe for one share in the Company at the following exercise price (subject to adjustments should there be changes in the share capital structure of the Company).

### 26. SHARE CAPITAL (Continued)

#### Share options (Continued)

The following is a summary of movement of share options during the year:

Year of grant	Exercise price per share	Quantity of share options outstanding at 1st January, 2002	Quantity of share options lapsed during the year	Quantity of share options outstanding at 31st December, 2002
1994	HK\$2.59	490,000	490,000	—
1999	HK\$2.40	100,000	100,000	—
		590,000	590,000	—

During the year, no share options had been exercised and all the outstanding share options lapsed in January 2002. The Share Option Scheme expired on 21st September, 2002 and thereafter, no more share options can be granted under the Share Option Scheme.

Since no share options were granted under the Share Option Scheme during the year, no value of share options granted had been disclosed accordingly.

## Notes to the Financial Statements

### 27. RESERVES

#### Group

	Share premium <i>HK\$'000</i>	Capital redemption reserve <i>(Note (d))</i> <i>HK\$'000</i>	Distributable reserves <i>(Note (c))</i> <i>HK\$'000</i>	Exchange equalisation reserve <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January, 2001	50,988	7,052	2,846,875	(11,400)	2,893,515
Exchange differences on consolidation	—	—	—	(570)	(570)
Loss for the year <i>(Note (b))</i>	—	—	(192,480)	—	(192,480)
Release of goodwill previously eliminated against consolidated reserves upon impairment losses recognised in the profit and loss account	—	—	137,621	—	137,621
2000 final dividend, declared and paid	—	—	(84,471)	—	(84,471)
2001 interim dividend, declared and paid	—	—	(20,273)	—	(20,273)
At 31st December, 2001 and 1st January, 2002	50,988	7,052	2,687,272	(11,970)	2,733,342
Exchange differences on consolidation	—	—	—	(432)	(432)
Loss for the year <i>(Note (b))</i>	—	—	(111,368)	—	(111,368)
Release of goodwill previously eliminated against consolidated reserves upon disposal of subsidiaries	—	—	827,266	—	827,266
2001 final distribution, declared and paid	—	—	(40,546)	—	(40,546)
2002 special interim distribution, declared and paid	—	—	(1,959,729)	—	(1,959,729)
2002 interim distribution, declared and paid	—	—	(20,273)	—	(20,273)
At 31st December, 2002	50,988	7,052	1,382,622	(12,402)	1,428,260

### 27. RESERVES (Continued)

#### Company

	Share premium <i>HK\$'000</i>	Capital redemption reserve <i>(Note (d))</i> <i>HK\$'000</i>	Distributable reserves <i>(Note (c))</i> <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January, 2001	50,988	7,052	3,657,604	3,715,644
Loss for the year ( <i>Note 14</i> )	—	—	(89,651)	(89,651)
2000 final dividend, declared and paid	—	—	(84,471)	(84,471)
2001 interim dividend, declared and paid	—	—	(20,273)	(20,273)
At 31st December, 2001 and 1st January, 2002	50,988	7,052	3,463,209	3,521,249
Loss for the year ( <i>Note 14</i> )	—	—	(89,688)	(89,688)
2001 final distribution, declared and paid	—	—	(40,546)	(40,546)
2002 special interim distribution, declared and paid	—	—	(1,959,729)	(1,959,729)
2002 interim distribution declared and paid	—	—	(20,273)	(20,273)
At 31st December, 2002	50,988	7,052	1,352,973	1,411,013

Note:

- (a) Cancellation of share premium and transfer to distributable reserves

Pursuant to a special resolution passed at a special general meeting of the Company on 2nd December, 1997, the entire amount standing to the credit of the share premium account of HK\$3,630,765,000 was cancelled (the "Cancellation"). The credit arising from the Cancellation was transferred to distributable reserves. The balance of the reserves arising from the Cancellation could be applied towards any capitalisation issues of the Company in future, the elimination of any goodwill arising on acquisitions or for making distributions to shareholders of the Company.

## Notes to the Financial Statements

### 27. RESERVES (Continued)

Note: (Continued)

- (b) Consolidated loss for the year attributable to shareholders is retained as follows:

	Group	
	2002 HK\$'000	Restated 2001 HK\$'000
The Company and its subsidiaries	(111,235)	(192,512)
Associates	(133)	32
	<b>(111,368)</b>	<b>(192,480)</b>

- (c) Distributable reserves of the Group at 31st December, 2002 comprise accumulated losses of HK\$108,829,000 (2001 — retained earnings of HK\$2,539,000) and the remaining balance arising from the Cancellation of HK\$1,491,451,000 (2001 — HK\$2,684,733,000). Included in the distributable reserves of the Group at 31st December, 2002 was an amount of proposed final distribution for the year then ended of HK\$40,496,000 (2001 — HK\$40,546,000) declared after the balance sheet date.

Distributable reserves of the Company at 31st December, 2002 comprise contributed surplus of HK\$134,329,000 (2001 — HK\$134,329,000), accumulated losses of HK\$272,807,000 (2001 — HK\$183,119,000) and the remaining balance arising from the Cancellation of HK\$1,491,451,000 (2001 — HK\$3,511,999,000). Included in the distributable reserves of the Company at 31st December, 2002 was an amount of proposed final distribution for the year then ended of HK\$40,496,000 (2001 — HK\$40,546,000) declared after the balance sheet date.

- (d) The capital redemption reserve is not available for distribution to shareholders.

### 28. BANK LOANS

	Group	
	2002 HK\$'000	2001 HK\$'000
Repayable within one year:		
Secured (Note)	11,000	—
Unsecured	10,000	69,000
	<b>21,000</b>	<b>69,000</b>

Note: The bank loan of HK\$11,000,000 (2001 — Nil) was secured by certain securities owned by margin clients of the Group.

## Notes to the Financial Statements

### 29. CREDITORS AND ACCRUALS

Included in the balances are trade creditors with the aged analysis as follows:

	Group	
	2002	Restated 2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Outstanding balances with ages:		
Repayable on demand	459,255	261,470
Within 30 days	831	1,008
Between 31 and 60 days	918	7,905
Between 61 and 90 days	4,890	5,945
Between 91 and 180 days	5,889	8,320
Over 180 days	13,406	14,064
	<b>485,189</b>	298,712

### 30. INTERESTS IN SUBSIDIARIES

	Company	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	1	4,159,355
Due from subsidiaries	1,904,304	615,090
Due to subsidiaries	(136,884)	(37,334)
	<b>1,767,421</b>	4,737,111
Provisions for impairment losses	(84,248)	(21,851)
	<b>1,683,173</b>	4,715,260

The balances with subsidiaries are unsecured and have no fixed terms of repayment. Certain balances bear interest at rates reflecting the respective costs of funds within the Group.

Details of the principal subsidiaries are set out on pages 76 and 77.

## Notes to the Financial Statements

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

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

	Group	
	2002	Restated 2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss before tax	<b>(110,691)</b>	(182,114)
Adjustments for:		
Share of results of associates	<b>133</b>	(32)
Loss on disposal of:		
Fixed assets	<b>10</b>	—
Subsidiaries	<b>10,545</b>	—
Provisions for impairment losses:		
Held-to-maturity securities	<b>273</b>	1,231
Goodwill	<b>3,330</b>	137,621
Provision for loss on guaranteed return arrangement for fund management	<b>88,290</b>	72,242
Write-back of deficit on revaluation of investment property	<b>(748)</b>	—
Interest expenses	<b>3,884</b>	6,443
Interest income	<b>(55,331)</b>	(24,383)
Dividend income	<b>(181)</b>	—
Depreciation	<b>2,479</b>	2,631
Amortisation of goodwill	<b>2,094</b>	—
Operating profit/(loss) before working capital changes	<b>(55,913)</b>	13,639
Decrease/(Increase) in other investments in securities	<b>(140,414)</b>	16,889
Increase in loans and advances	<b>(49,597)</b>	(95,846)
Decrease/(Increase) in debtors, prepayments and deposits	<b>(115,107)</b>	56,857
Increase in creditors and accruals	<b>132,870</b>	8,703
Increase in bank deposits with original maturity over three months	<b>(309,221)</b>	—
Increase in certificates of deposit held	<b>(160,000)</b>	—
Increase in client trust bank balances	<b>(39,429)</b>	(18,713)
	<b>(736,811)</b>	(18,471)
Profit attributable to banking operations	<b>(13,890)</b>	(30,816)
Cash used in operations	<b>(750,701)</b>	(49,287)



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

#### (b) Banking operations

As set out in Note 23 to the financial statements, due to the dissimilar nature of banking and non-banking operations, assets less liabilities attributable to banking operations are shown separately. Accordingly, details of the cash flows in respect of the banking operations are not disclosed in the cash flow statement of the Group. Details of the significant cash flows between the banking operations and the other Group companies are set out below:

	Group	
	2002 HK\$'000	2001 HK\$'000
Dividend received from banking operations	—	36,000
Receipt on disposal of loans and advances to banking operations	<b>183,970</b>	—
Repayment from/(Advances to) banking operations	<b>(53,913)</b>	279,827
Drawdown/(Repayment) of bank loan	<b>(69,000)</b>	69,000
	<b>61,057</b>	384,827

#### (c) Disposal of subsidiaries

	Group	
	2002 HK\$'000	2001 HK\$'000
Net assets disposal of:		
Assets less liabilities attributable to banking operations	<b>3,366,600</b>	—
Loss on disposal	<b>(10,545)</b>	—
Release of goodwill on disposal	<b>827,266</b>	—
Consideration received	<b>4,183,321</b>	—

## Notes to the Financial Statements

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

#### (c) Disposal of subsidiaries (Continued)

Satisfied by:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Cash consideration and net inflow of cash and cash equivalents	3,343,321	—
Certificates of deposit	840,000	—
	<u>4,183,321</u>	—

#### (d) Acquisition of subsidiaries

	Group	
	2002	2001
	HK\$'000	HK\$'000
Net assets acquired:		
Fixed assets	29	—
Cash and bank balances	24	—
Assets less liabilities attributable to banking operations	146,011	—
Debtors, prepayments and deposits	205	—
Creditors and accruals	(229)	—
Minority interests	(21,906)	—
	<u>124,134</u>	—
Goodwill arising on acquisition	<u>69,305</u>	—
Cash consideration paid	<u>193,439</u>	—

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

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

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

	Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash consideration paid	<b>(193,439)</b>	—
Cash and bank balances acquired	24	—
Net outflow of cash and cash equivalents	<b>(193,415)</b>	—

The subsidiaries acquired contributed turnover of HK\$9,362,000 and a profit after tax of HK\$1,662,000 to the Group during the year.

### 32. CONTINGENT LIABILITIES

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

#### Group

As at 31st December, 2002, the Group had contingent liabilities relating to its newly acquired banking subsidiary of HK\$74,578,000, comprising guarantees and other endorsements of HK\$39,978,000 and liabilities under letters of credit on behalf of customers of HK\$34,600,000.

## Notes to the Financial Statements

### 32. CONTINGENT LIABILITIES (Continued)

As at 31st December, 2001, the Group had the following contingent liabilities:

#### (a) Contingent liabilities and commitments

The following was a summary of the contract amounts of each significant class of contingent liabilities and commitments at 31st December, 2001:

	<b>Group</b> <i>HK\$'000</i>
Direct credit substitutes	20,882
Transaction-related contingencies	55,854
Trade-related contingencies	148,277
Forward forward deposits	77,852
Other commitments with an original maturity of:	
Under one year or which are unconditionally cancellable	2,711,893
One year and over	70,853
	<u>3,085,611</u>

#### (b) Derivatives

The following was an analysis of the aggregate notional contract amounts of each significant type of derivatives outstanding as at 31st December, 2001:

<b>Group</b>	<b>Trading</b> <i>HK\$'000</i>	<b>Hedging</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
Exchange rate contracts:			
Forward contracts	425,038	—	425,038
Currency swaps	63,915	30,878	94,793
Interest rate contracts:			
Interest rate swaps	—	173,881	173,881
	<u>488,953</u>	<u>204,759</u>	<u>693,712</u>

### 32. CONTINGENT LIABILITIES (Continued)

#### (b) Derivatives (Continued)

##### Group

The contract/notional amounts, credit risk weighted amounts, and replacement costs of the above off-balance sheet exposures as at 31st December, 2001 were as follows:

	Contract/ notional amount <i>HK\$'000</i>	Credit risk weighted amount <i>HK\$'000</i>	Replace- ment cost <i>HK\$'000</i>
Contingent liabilities and commitments	3,085,611	109,648	N/A
Derivatives:			
Exchange rate contracts	519,831	3,988	13,020
Interest rate contracts	173,881	790	1,207
	3,779,323	114,426	14,227

The contract amounts of these instruments indicated the volume of transactions outstanding as at the balance sheet date of the prior year; they did not necessarily bear any direct correlation to the underlying risks of the exposures.

The Group did not enter into any bilateral netting agreements during the prior year and accordingly the above amounts are shown on a gross basis.

The credit risk weighted amounts are calculated in accordance with the Third Schedule of the Hong Kong Banking Ordinance and guidelines issued by the Hong Kong Monetary Authority. The amounts calculated are dependent upon the status of the counterparty and the maturity characteristics of each type of contract.

## Notes to the Financial Statements

### 32. CONTINGENT LIABILITIES (Continued)

#### (b) Derivatives (Continued)

##### Group

Replacement cost is the cost of replacing all contracts which had a positive value when marked to market (should the counterparty default on its obligations) and was obtained by aggregating all contracts with a positive mark-to-market value. Replacement cost was considered to be a close approximation of the credit risk for these contracts as at 31st December, 2001.

##### Company

As at 31st December, 2002, guarantees provided by the Company in respect of banking facilities granted to its subsidiary amounted to HK\$255,000,000 (2001—HK\$286,800,000).

### 33. OPERATING LEASE ARRANGEMENTS

The Group leases certain properties under lease agreements which are non-cancellable. The leases expire on various dates until 31st January, 2005 and leases for properties contain provision for rental adjustments. Future minimum lease payments under non-cancellable operating leases in respect of land and buildings fall due as follows:

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Within one year	6,232	17,855	728	—
In the second to fifth years, inclusive	5,232	5,828	516	—
	<b>11,464</b>	23,683	<b>1,244</b>	—

### 34. CAPITAL COMMITMENTS

Capital commitments outstanding at 31 December not provided for in the accounts are as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Contracted but not provided for	—	3,114

### 35. LOANS TO OFFICERS

The aggregate amounts in respect of advances made by HKCB, a former banking subsidiary of the Company, to officers disclosed pursuant to Section 161B(4C) of the Companies Ordinance are as follows:

	<b>2002</b>	<b>Group</b>
	<b>HK\$'000</b>	<b>2001</b>
		<b>HK\$'000</b>
Balance outstanding at 31st December	<b>N/A</b>	19,055
Maximum balances outstanding during the year	<b>19,055</b>	24,437

### 36. CONNECTED AND RELATED PARTY TRANSACTIONS

Listed below are connected transactions disclosed in accordance with the Listing Rules and related party transactions disclosed in accordance with SSAP 20 "Related party disclosures".

- (a) During last year and up to the completion of the disposal (the "Disposal") of HKCB, a former banking subsidiary of the Company, and its subsidiaries by the Group on 17th January, 2002, the Group entered into a number of transactions, including the taking of deposits and other ordinary banking transactions, in the normal course of business with (i) the holding companies of the Company, (ii) the fellow subsidiaries of the Company and (iii) the then major shareholder (the "Shareholder") of an intermediate holding company of the Company and the holding companies, subsidiaries, fellow subsidiaries and associates of the Shareholder. These transactions were priced on the basis of the relevant market rates at the time of each transaction, and were under terms and conditions that would normally apply to independent customers of comparable standing. Subsequent to the Disposal, transactions between HKCB and the above relevant parties were no longer connected transactions or related party transactions of the Group. During the year and up to the date of the Disposal, there were no material interest income received from, or interest expenses paid to, its holding companies, fellow subsidiaries and the Shareholder and its related companies by the Group. During the prior year, the Group received interest income of HK\$5,697,000 from, and paid interest expense of HK\$103,520,000 to, the Shareholder and its related companies and paid interest expense of HK\$7,880,000 to its holding companies and fellow subsidiaries.
- (i) As at 31st December, 2001, included in "Current, fixed, savings and other deposits of customers" and "Other accounts and provisions" as referred to in Note 23 to the financial statements were amounts due to the holding companies of HK\$137,785,000 and HK\$92,000, respectively.

## Notes to the Financial Statements

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

- (ii) As at 31st December, 2001, included in "Advances, trade bills and other accounts", "Current, fixed, savings and other deposits of customers" and "Other accounts and provisions" as referred to in Note 23 to the financial statements were amount due from the fellow subsidiaries of HK\$881,000 and amounts due to the fellow subsidiaries of HK\$151,627,000 and HK\$68,000, respectively.
- (iii) As at 31st December, 2001, included in "Advances, trade bills and other accounts" and "Current, fixed, savings and other deposits of customers" as referred to in Note 23 to the financial statements were amount due from the Shareholder and its related companies of HK\$92,936,000 and amount due to the Shareholder and its related companies of HK\$2,418,031,000, respectively.

No transactions were entered into during the year between MCB, the new banking subsidiary of the Company, and the holding companies and fellow subsidiaries of the Company since its acquisition by the Group.

- (b) As referred to in Note 3(a) and Note 23 to the financial statements, assets and liabilities of banking operations were shown separately in the audited consolidated financial statements. As at 31st December, 2002, the Group had no balances with MCB. As at 31st December, 2001, the Group had balances with the HKCB Group which had not been eliminated on consolidation which included "Advances, trade bills and other accounts" of HK\$69,000,000 and "Current, fixed, savings and other deposits of customers" of HK\$756,753,000 as referred to in Note 23 to the financial statements.
- (c) During the year, Lippo Securities Limited ("LSL") and Lippo Investments Management Limited ("LIM"), being wholly-owned subsidiaries of the Group, paid rental expenses of HK\$4,601,000 (2001 — HK\$4,709,000) and HK\$243,000 (2001 — HK\$983,000) to Prime Power Investment Limited ("Prime Power") and to Porbandar Limited ("Porbandar") in respect of office premises occupied by LSL and LIM, respectively. Prime Power and Porbandar are wholly-owned subsidiaries of Lippo China Resources Limited ("LCR") which in turn is an intermediate holding company of the Company. Such rentals were determined by reference to open market rentals.



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

- (d) On 16th December, 2002, the following tenancy agreements were entered between the group companies:
- (i) a tenancy agreement between (1) ImPac Asset Management (HK) Limited ("ImPac"), an 85 per cent. owned subsidiary of the Company, and (2) Porbandar pursuant to which Porbandar agreed to let to ImPac a portion of Room 4301, 43rd Floor, Tower One, Lippo Centre, 89 Queensway, Hong Kong with a gross floor area of 1,203 square feet for a term of two years from 12th August, 2002 to 11th August, 2004, both days inclusive, at a monthly rental of HK\$19,368, exclusive of rates, service charges and all other outgoings, for office use. The rental was determined by reference to open market rentals. During the year, rental expense of HK\$90,000 (2001 — Nil) was paid accordingly;
  - (ii) a tenancy agreement between (1) the Company and (2) Porbandar pursuant to which Porbandar agreed to let to the Company a portion of Room 4301, 43rd Floor, Tower One, Lippo Centre, 89 Queensway, Hong Kong with a gross floor area of 3,676 square feet for a term of two years from 16th September, 2002 to 15th September, 2004, both days inclusive, at a monthly rental of HK\$60,654, exclusive of rates, service charges and all other outgoings, for office use. The rental was determined by reference to open market rentals. During the year, rental expenses of HK\$212,000 (2001 — Nil) was paid accordingly; and
  - (iii) a tenancy agreement was entered into between (1) Lippo Securities Holdings Limited ("LSHL"), a wholly-owned subsidiary of the Company, and (2) Prime Power pursuant to which Prime Power agreed to let to LSHL of Rooms 2302-2306, 23rd Floor, Tower One, Lippo Centre, 89 Queensway, Hong Kong with a gross floor area of 12,038 square feet for a term of two years from 18th January, 2003 to 17th January, 2005, both days inclusive, at a monthly rental of HK\$192,608, exclusive of rates, service charges and all other outgoings, for office use. The rental was determined by reference to open market rentals.
- (e) As at 31st December, 2002, the Group had balances with its associates as set out in Note 20 to the financial statements.

## Notes to the Financial Statements

### 37. COMPARATIVE AMOUNTS

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

As further explained in Note 3(a) to the financial statements, the Group no longer follows the disclosure requirements as set out in the Supervisory Policy Manual "Financial Disclosure by Locally Incorporated Authorized Institutions" issued by the Hong Kong Monetary Authority following the disposal of the HKCB Group and accordingly, the presentation of certain comparative amounts have been reclassified and restated to conform with the current year's presentation.

Set out below are the respective financial information for the comparative amounts previously published in the Company's 2001 annual report.

## Notes to the Financial Statements

### 37. COMPARATIVE AMOUNTS (Continued)

#### (a) Consolidated profit and loss account

For the year ended 31st December, 2001

	2001 HK\$'000
Interest income	1,263,674
Interest expense	(699,983)
Net interest income	563,691
Non-interest income	182,143
Total operating income	745,834
Operating expenses	(545,187)
Operating profit before provisions	200,647
Charge for bad and doubtful debts	(232,506)
Operating loss after provisions	(31,859)
Impairment losses of goodwill	(137,621)
Net loss on disposal/revaluation of fixed assets	(5,346)
Provisions made on held-to-maturity securities	(7,320)
	(182,146)
Share of net profits of associates	32
Loss before tax	(182,114)
Tax	(10,191)
Loss after tax	(192,305)
Minority interests	(175)
Loss attributable to shareholders	(192,480)
	HK cents
Loss per share	
Basic	(14.2)
Diluted	(14.2)
	HK\$'000
Dividends and distributions	
Interim dividend declared during the year	20,273
Final distribution declared after the balance sheet date	40,546
Special interim distribution declared after the balance sheet date	1,959,729
	2,020,548

## Notes to the Financial Statements

### 37. COMPARATIVE AMOUNTS (Continued)

#### (b) Consolidated Balance Sheet

As at 31st December, 2001

	2001 HK\$'000
<b>Assets</b>	
Cash and short-term funds	5,818,886
Placements with banks and other financial institutions maturing between one and twelve months	37,847
Certificates of deposit held	605,402
Other investments in securities	194,146
Held-to-maturity securities and investment securities	491,134
Advances to customers, banks and other financial institutions, trade bills and other accounts	12,171,309
Investments in associates	55,547
Fixed assets	1,142,916
Total assets	<u>20,517,187</u>
<b>Liabilities</b>	
Deposits and balances of banks and other financial institutions	60,880
Current, fixed, savings and other deposits of customers	14,589,883
Certificates of deposit issued	990,607
Other accounts and provisions	790,127
Total liabilities	<u>16,431,497</u>
<b>Capital Resources</b>	
Share capital	1,351,537
Reserves	2,733,342
Shareholders' funds	4,084,879
Minority interests	811
Total capital resources	<u>4,085,690</u>
Total liabilities and capital resources	<u>20,517,187</u>

### 37. COMPARATIVE AMOUNTS *(Continued)*

#### (c) Consolidated Cash Flow Statement

For the year ended 31st December, 2001

	2001 <i>HK\$'000</i>
<b>Net cash outflow from operating activities</b>	<u>(2,834,049)</u>
<b>Returns on investments and servicing of finance</b>	
Dividends paid	(104,744)
Interest paid on subordinated floating rate notes issued	<u>(12,869)</u>
<b>Net cash outflow from returns on investments and servicing of finance</b>	<u>(117,613)</u>
<b>Taxation</b>	
Overseas tax refunded	393
Hong Kong profits tax paid	<u>(43,487)</u>
<b>Total tax paid</b>	<u>(43,094)</u>
<b>Investing activities</b>	
Purchase of investment securities	(900)
Purchase of fixed assets	(19,115)
Proceeds from disposal of fixed assets	<u>40</u>
<b>Net cash outflow from investing activities</b>	<u>(19,975)</u>
<b>Net cash outflow before financing activities</b>	<u>(3,014,731)</u>
<b>Financing activities</b>	
Repurchase of subordinated floating rate notes issued	(230,856)
Repayment in loan from a financial institution	<u>(45,000)</u>
<b>Net cash outflow from financing activities</b>	<u>(275,856)</u>
<b>Decrease in cash and cash equivalents</b>	(3,290,587)
<b>Cash and cash equivalents at 1st January</b>	<u>8,547,689</u>
<b>Cash and cash equivalents at 31st December</b>	<u><u>5,257,102</u></u>

### 38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 23rd April, 2003.