

# Notes to the Financial Statements

31 December 2003

## 1. CORPORATE INFORMATION

The registered office of South China Brokerage Company Limited is located at 28th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong.

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

- securities, bullion and commodities broking and trading
- margin financing and money lending
- provision of corporate advisory and underwriting services
- property investment
- investment holding

In the opinion of the directors, the ultimate holding company is South China Holdings Limited, which is incorporated in the Cayman Islands.

## 2. IMPACT OF A REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE (“SSAP”)

The following revised SSAP and Interpretation are effective for the first time for the current year’s financial statements and have had a significant impact thereon:

- SSAP 12 (Revised): “Income taxes”
- Interpretation 20: “Income taxes - Recovery of revalued non-depreciable assets”

This SSAP and Interpretation 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 the SSAP and Interpretation which have had a significant effect on the financial statements are summarised as follows:

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

## Notes to the Financial Statements

31 December 2003

### 2. IMPACT OF A REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE (“SSAP”) (Continued)

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- deferred tax assets relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future; and
- a deferred tax asset has been recognised for tax losses arising in the current/prior periods to the extent that it is probable that there will be sufficient future taxable profits against which such losses can be utilised.

Disclosures:

- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 10 and 21 to the financial statements and include a reconciliation between the accounting profit and the tax income for the year.

Interpretation 20 requires that a deferred tax asset or liability that arises from the revaluation of certain non-depreciable assets and investment properties is measured based on the tax consequences that would follow from the recovery of the carrying amount of that asset through sale. This policy has been applied by the Group in respect of the revaluation of its investment property in the deferred tax calculated under SSAP 12.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Basis of preparation*

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

# Notes to the Financial Statements

31 December 2003

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

### *Basis of consolidation*

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

### *Subsidiaries*

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital, or controls the composition of its board of directors.

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

### *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 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 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.

# Notes to the Financial Statements

31 December 2003

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

### *Fixed assets and depreciation*

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

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

Leasehold improvements	Over the lease terms
Furniture and equipment	10% - 25%
Motor vehicles	20%

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

### *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, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year.

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.

On 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.

## Notes to the Financial Statements

31 December 2003

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

#### *Leased assets*

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

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.

#### *Intangible assets*

Intangible assets, representing the eligibility rights to trade on or through the Hong Kong Stock Exchange (the "Stock Exchange Trading Rights") and the Hong Kong Futures Exchange (the "Futures Exchange Trading Rights"), are stated at cost less accumulated amortisation. Cost was determined by the directors according to the methodology detailed in note 16.

Amortisation is calculated on the straight-line basis to write off the cost of the trading rights over their estimated useful life of ten years.

#### *Other assets*

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

## Notes to the Financial Statements

31 December 2003

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

#### *Long term investments*

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

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

#### *Short term investments*

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

#### *Income tax*

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

## Notes to the Financial Statements

31 December 2003

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

#### *Income tax (Continued)*

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

#### *Revenue recognition*

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

- (a) commission and brokerage income, accrued on all broking transactions on a trade date basis;
- (b) profit or loss on the trading of securities, bullion and futures contracts, on a trade date basis;
- (c) dividend income, when the shareholders' right to receive payment has been established;
- (d) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;

## Notes to the Financial Statements

31 December 2003

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

#### *Revenue recognition (Continued)*

- (e) from the rendering of services, on the stage of completion of the transaction, provided that the costs involved can be measured reliably. The stage of completion of a transaction associated with the rendering of services is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction; and
- (f) rental income, on a time proportion basis over the lease terms.

#### *Dividends*

Final dividends proposed by the directors are classified as a separate allocation of retained profits 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 have been approved by the shareholders and declared, they are recognised as a liability.

#### *Employee benefits*

##### *Paid leave carried forward*

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

##### *Employment Ordinance long service payments*

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

No provision has been made in respect of the possible future long service payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Company.



## Notes to the Financial Statements

31 December 2003

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

#### *Employee benefits (Continued)*

##### *Pension scheme*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the Scheme.

##### *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.

#### *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 are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries 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 fluctuation 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. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

## Notes to the Financial Statements

31 December 2003

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

#### *Cash and cash equivalents*

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

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

#### *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.

### 4. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. In determining the Group's geographical segments, revenues are attributable to the segments based on the location of the clients, and assets are attributable to the segments based on the location of the assets. No further geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in Hong Kong, and over 90% of the Group's assets are located in Hong Kong.

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

- (a) the broking segment engages in securities, bullion and commodities broking;
- (b) the trading and investment segment engages in securities, bullion and commodities trading and investment holding;
- (c) the margin financing segment engages in the provision of margin financing;
- (d) the money lending segment engages in the provision of personal loan financing;
- (e) the corporate advisory and underwriting segment engages in the provision of corporate advisory and underwriting services;
- (f) the property investment segment engages in property rental; and
- (g) the corporate and other segment comprises corporate income, expense, asset and liability items.

Intersegment transactions are transacted with reference to the prices charged to third parties at the then prevailing market prices.

# Notes to the Financial Statements

31 December 2003

## 4. SEGMENT INFORMATION (Continued)

The following tables represent revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

### 2003

GROUP	Broking	Trading and investment	Margin financing	Money lending	Corporate advisory and underwriting	Property investment	Corporate and other	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:									
Sales to external customers	62,390	730	15,177	25,646	14,590	2,199	2,194	—	122,926
Intersegment sales	—	—	260	6,416	—	—	—	(6,676)	—
	62,390	730	15,437	32,062	14,590	2,199	2,194	(6,676)	122,926
Segment results	(11,900)	37,893	13,639	396	(9,803)	7,129	(6,155)	—	31,199
Finance costs									(1,395)
Profit before tax									29,804
Tax									3,659
Profit before minority interests									33,463
Minority interests									(34)
Net profit from operating activities attributable to shareholders									33,429
Segment assets	362,337	63,766	174,596	78,376	1,571	85,249	7,075	(1,820)	771,150
Unallocated assets									4,463
Total assets									775,613
Segment liabilities	301,911	2,076	130,823	51,338	384	41,147	1,813	(1,820)	527,672
Unallocated liabilities									62
Total liabilities									527,734
Other segment Information:									
Depreciation and amortisation	(3,838)	(145)	(108)	(1,601)	(998)	(24)	(190)	—	(6,904)
Reversal of impairment of long term investments	—	1,832	—	—	—	—	—	—	1,832
Write-back of provisions/ (provisions) for bad and doubtful debts	—	—	6,428	(20,912)	—	—	—	—	(14,484)
Capital expenditure	222	8	6	340	94	1	11	—	682

# Notes to the Financial Statements

31 December 2003

## 4. SEGMENT INFORMATION (Continued)

The following tables represent revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

### 2002

GROUP	Broking HK\$'000	Trading and investment HK\$'000	Margin financing HK\$'000	Money lending HK\$'000	Corporate advisory and underwriting HK\$'000	Property investment HK\$'000	Corporate and other HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Segment revenue:									
Sales to external customers	44,668	(12,337)	18,611	39,918	13,505	1,438	3,981	—	109,784
Intersegment sales	—	—	1,222	—	—	—	—	(1,222)	—
	44,668	(12,337)	19,833	39,918	13,505	1,438	3,981	(1,222)	109,784
Segment results	(61,280)	(115,601)	(23,915)	293	(2,057)	(20,730)	(506)	—	(223,796)
Finance costs									(1,459)
Loss before tax									(225,255)
Tax									(403)
Loss before minority interests									(225,658)
Minority interests									(3)
Net loss from operating activities attributable to shareholders									(225,661)
Segment assets	213,183	45,413	182,384	92,520	1,744	79,141	30,440	(5,132)	639,693
Unallocated assets									1,094
Total assets									640,787
Segment liabilities	183,308	5,502	130,910	60,865	910	45,961	3,486	(5,132)	425,810
Unallocated liabilities									117
Total liabilities									425,927
Other segment Information:									
Depreciation and amortisation	(5,107)	(367)	(306)	(2,456)	(569)	(456)	(15)	—	(9,276)
Impairment of long term investments	—	(22,560)	—	—	—	—	—	—	(22,560)
Provisions for bad and doubtful debts	—	—	(26,473)	(26,773)	—	—	—	—	(53,246)
Capital expenditure	2,149	160	133	612	305	53	—	—	3,412

# Notes to the Financial Statements

31 December 2003

## 5. TURNOVER

Turnover represents commission and brokerage income from securities, bullion and futures contracts broking; profit or loss on the trading of securities, bullion and futures contracts; dividend income; interest income; corporate advisory fees; commission income from share underwriting and placing; and rental income, after elimination of all significant intercompany transactions.

Revenue from the following activities has been included in turnover:

	GROUP	
	2003 HK\$'000	2002 HK\$'000
Commission and brokerage income	61,912	43,991
Profit/(loss) on trading of securities, bullion and futures contracts, net	79	(13,218)
Dividend income	651	881
Interest income	39,463	56,382
Rendering of services	13,415	13,338
Gross rental income	2,195	1,382
	<b>117,715</b>	<b>102,756</b>

## 6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	Notes	GROUP	
		2003 HK\$'000	2002 HK\$'000
Cost of services provided		27,292	25,995
Auditors' remuneration		675	632
Depreciation	14	6,742	9,114
Loss on disposal of fixed assets		28	49
Amortisation of intangible assets	16	162	162
Operating lease rentals in respect of land and buildings		<b>8,787</b>	<b>15,747</b>

# Notes to the Financial Statements

31 December 2003

## 6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES (Continued)

		GROUP	
	Notes	2003 HK\$'000	2002 HK\$'000
Staff costs (including directors' remuneration):			
Pension scheme contributions		1,847	2,710
Less: Forfeited contributions		(699)	(1,033)
Net pension benefits contributions	(a)	1,148	1,677
Wages and salaries		46,030	63,868
		47,178	65,545
Interest expense for margin financing and money lending operations:			
Bank and other borrowings wholly repayable within five years		7,093	10,425
Clients		495	1,333
		7,588	11,758
Loss/(gain) on disposal of long term investments, including transfer of deficit from long term investment reserve of HK\$ nil (2002: HK\$62,079,000)		(4,138)	61,225
Impairment/(reversal of impairment) of long term investments, including transfer of deficit from long term investment reserve of HK\$ nil (2002: HK\$20,926,000)		(1,832)	22,560
Loss/(profit) on trading of short term investments		(254)	13,369
Foreign exchange gains, net		(1,702)	(459)
Interest income:	(b)		
Banks and financial institutions		(1,573)	(3,245)
Clients		(37,812)	(52,513)
Intermediate holding company		(2,078)	(3,910)
Fellow subsidiaries		(78)	(624)
		(41,541)	(60,292)
Dividend income from listed investments		(651)	(881)
Net rental income		(2,195)	(1,362)

# Notes to the Financial Statements

31 December 2003

## 6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES (Continued)

Notes:

- (a) At 31 December 2003, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2002: Nil).
- (b) The Group's interest income was derived principally from margin financing and money lending operations, except for the interest income from an intermediate holding company, details of which are set out in notes 23 and 33 to the financial statements, respectively.

## 7. FINANCE COSTS

	GROUP	
	2003 HK\$'000	2002 HK\$'000
Interest on:		
Mortgage loan	1,324	1,411
Finance leases	71	48
	<b>1,395</b>	<b>1,459</b>

## 8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Companies Ordinance, is as follows:

	GROUP					
	Executive		Non-executive		Independent non-executive	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Fees	53	50	10	10	76	76
Other emoluments:						
Salaries, allowances and benefits in kind	4,628	7,406	—	—	—	124
Pension scheme contributions	169	294	—	—	—	—
	<b>4,850</b>	<b>7,750</b>	<b>10</b>	<b>10</b>	<b>76</b>	<b>200</b>

# Notes to the Financial Statements

31 December 2003

## 8. DIRECTORS' REMUNERATION *(Continued)*

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2003	2002
Nil - HK\$1,000,000	8	5
HK\$1,000,001 - HK\$1,500,000	2	2
HK\$1,500,001 - HK\$2,000,000	—	1
	10	8

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

During the year, no share options were granted to the directors in respect of their services to the Group (2002: Nil).

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2002: three) executive directors, details of whose remuneration are disclosed in note 8 above. Details of the remuneration of the remaining two (2002: two) non-director, highest paid employees for the year are as follows:

	GROUP	
	2003 HK\$'000	2002 HK\$'000
Salaries, allowances and benefits in kind	2,483	3,671
Pension scheme contributions	24	24
	2,507	3,695



## Notes to the Financial Statements

31 December 2003

### 9. FIVE HIGHEST PAID EMPLOYEES (Continued)

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

	Number of employees	
	2003	2002
Nil - HK\$1,000,000	1	—
HK\$1,000,001 - HK\$1,500,000	—	1
HK\$1,500,001 - HK\$2,000,000	1	—
HK\$2,000,001 - HK\$2,500,000	—	1
	2	2

During the year, no share options were granted to the two non-director, highest paid employees in respect of their services to the Group (2002: Nil).

### 10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 December 2003. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, practices and interpretations in respect thereof.

	GROUP	
	2003 HK\$'000	2002 HK\$'000
Current - Hong Kong		
Charge for the year	(187)	(277)
Overprovision in prior years	17	59
Current - elsewhere	(163)	(185)
Deferred (note 21)	3,992	—
Total tax credit/(charge) for the year	3,659	(403)

## Notes to the Financial Statements

31 December 2003

## 10. TAX (Continued)

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax credit or expense at the effective tax rates, and a reconciliation of the statutory tax rates to the effective tax rates, are as follows:

## Group

	2003		2002	
	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	29,804		(225,255)	
Tax at statutory tax rates	(5,216)	(17.5)	36,041	16.0
Higher tax rates on profits arising in UK	(39)	(0.1)	(104)	—
Adjustments in respect of current tax of previous periods	17	0.1	59	—
Income not subject to tax	7,943	26.7	(2,650)	(1.2)
Expenses not deductible for tax	(1,963)	(6.7)	64,538	28.7
Increase in tax losses carried forward	(1,553)	(5.2)	(98,287)	(43.6)
Tax losses utilised from previous periods	4,470	15.0	—	—
Tax credit/(charge) at the Group's effective tax rate	3,659	12.3	(403)	(0.1)

## 11. NET LOSS FROM OPERATING ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from operating activities attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company is HK\$605,000 (2002: net loss of HK\$123,923,000).

## 12. DIVIDENDS

	2003 HK\$'000	2002 HK\$'000
Proposed final:		
0.20 HK cent (2002: Nil) per ordinary share	9,724	—

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

# Notes to the Financial Statements

31 December 2003

## 13. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$33,429,000 (2002: net loss of HK\$225,661,000) and the 4,861,990,940 (2002: 4,861,898,979) ordinary shares in issue during the year.

Diluted earnings/(loss) per share amounts for the years ended 31 December 2003 and 2002 have not been disclosed as no diluting events existed during the years.

## 14. FIXED ASSETS

### GROUP

	Leasehold improvements HK\$'000	Furniture and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost:				
At beginning of year	16,246	32,921	3,316	52,483
Additions	183	499	—	682
Disposals	(246)	(357)	—	(603)
Exchange realignment	69	39	—	108
<b>At 31 December 2003</b>	<b>16,252</b>	<b>33,102</b>	<b>3,316</b>	<b>52,670</b>
Accumulated depreciation:				
At beginning of year	12,828	23,493	3,270	39,591
Provided during the year	1,718	4,978	46	6,742
Disposals	(246)	(259)	—	(505)
Exchange realignment	62	31	—	93
<b>At 31 December 2003</b>	<b>14,362</b>	<b>28,243</b>	<b>3,316</b>	<b>45,921</b>
Net book value:				
<b>At 31 December 2003</b>	<b>1,890</b>	<b>4,859</b>	<b>—</b>	<b>6,749</b>
At 31 December 2002	3,418	9,428	46	12,892

The net book value of the Group's fixed assets held under finance leases included in furniture and equipment at 31 December 2003 amounted to HK\$694,000 (2002: HK\$815,000).

# Notes to the Financial Statements

31 December 2003

## 15. INVESTMENT PROPERTY

	GROUP	
	2003 HK\$'000	2002 HK\$'000
At beginning of year	78,000	—
Transfer from fixed assets	—	96,500
Surplus/(deficit) on revaluation	6,000	(18,500)
At 31 December	84,000	78,000

The Group's investment property is situated in Hong Kong and is held under a long term lease. At the balance sheet date, the investment property was pledged to secure banking facilities granted to the Group (note 30).

The Group's investment property was revalued at 31 December 2003 by BMI Appraisals Limited, independent professional valuers, at an open market value based on its existing state. The investment property is leased to third parties under operating lease arrangements, details of which are included in note 32 to the financial statements.

Details of the Group's investment property are as follows:

Location	Existing use
26/F, Tower One, Lippo Centre, 89 Queensway, Hong Kong.	Office rental

# Notes to the Financial Statements

31 December 2003

## 16. INTANGIBLE ASSETS

	GROUP	
	2003 HK\$'000	2002 HK\$'000
Cost:		
At beginning of year and at 31 December	1,619	1,619
Accumulated amortisation:		
At beginning of year	459	297
Provided during the year	162	162
At 31 December	621	459
Net book value at 31 December	998	1,160

Pursuant to the restructuring of the Hong Kong Stock Exchange (the "Stock Exchange") and the Hong Kong Futures Exchange (the "Future Exchange"), effective on 6 March 2001, the Group received four Stock Exchange Trading Rights, five Futures Exchange Trading Rights and 10,187,500 ordinary shares of HK\$1 each in Hong Kong Exchanges and Clearing Limited (the "HKEC Shares") in exchange for its four shares previously held in the Stock Exchange and five shares previously held in the Futures Exchange.

The carrying costs of the previously held shares in the Stock Exchange and Futures Exchange have been apportioned to the Stock Exchange Trading Rights, the Futures Exchange Trading Rights and the HKEC Shares on the basis of their respective estimated fair values on 6 March 2001.

The Stock Exchange Trading Rights and Futures Exchange Trading Rights have been classified as intangible assets as above and treated under the accounting policy as set out in note 3 to the financial statements.

## 17. OTHER ASSETS

	GROUP	
	2003 HK\$'000	2002 HK\$'000
Membership in Chinese Gold and Silver Exchange	1,280	1,280
Statutory deposits in respect of securities and commodities dealings	4,315	4,397
Club debentures	360	360
	5,955	6,037

# Notes to the Financial Statements

31 December 2003

## 18. INTERESTS IN SUBSIDIARIES

	COMPANY	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	100,489	99,964
Amounts due from subsidiaries	378,180	386,836
Amounts due to subsidiaries	(1,067)	(2,708)
	477,602	484,092
Provisions for impairment	(265,500)	(272,100)
	212,102	211,992

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

Particulars of the principal subsidiaries are as follows:

Name of company	Place of incorporation and operations	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Company		Principal activities
			2003	2002	
Kingwise Secretarial Services Limited	Hong Kong	HK\$2	100	100	Futures contracts trading
Polyluck Trading Limited	Hong Kong	HK\$2	100	100	Property investment
SCtrade.com Limited*	Hong Kong	HK\$5,000,000	100	100	Internet securities broking
South China Capital Limited	Hong Kong	HK\$2	100	100	Provision of corporate advisory services
South China Commodities Limited	Hong Kong	HK\$10,000,000	100	100	Commodities broking

# Notes to the Financial Statements

31 December 2003

## 18. INTERESTS IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation and operations	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Company		Principal activities
			2003	2002	
South China Finance Company Limited	Hong Kong	HK\$1,000,000	100	100	Margin financing
South China Finance and Management Limited	Hong Kong	HK\$2	100	100	Shares dealing and provision of management services
South China Finance (Nominees) Limited	Hong Kong	HK\$2	100	100	Provision of nominee services
South China Financial Credits Limited	Hong Kong	HK\$42,125,000	96.5	95.2	Money lending
South China Fund Management Limited	Hong Kong	HK\$600,000	100	100	Asset management
South China Precious Metal Limited	Hong Kong	HK\$2	100	100	Bullion broking
South China Research Limited	Hong Kong	HK\$600,000	100	100	Research publication
South China Securities Limited	Hong Kong	HK\$10,000,000	100	100	Securities broking, margin financing and underwriting
South China Securities (UK) Limited	United Kingdom	GBP200,000	100	100	Provision of securities trading services

\* SCtrade.com Limited ceased business operations on 1 September 2003 and became dormant thereafter.

# Notes to the Financial Statements

31 December 2003

## 18. INTERESTS IN SUBSIDIARIES (Continued)

Except for Polyluck Trading Limited, all principal subsidiaries are directly held by the Company.

The above summary lists the principal subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

## 19. INVESTMENTS

### Long term investments

	GROUP	
	2003 HK\$'000	2002 HK\$'000
Listed equity investments in Hong Kong, at market value	3,247	8,455

### Short term investments

	GROUP	
	2003 HK\$'000	2002 HK\$'000
Listed equity investments, at market value:		
Hong Kong	59,681	35,486
Elsewhere	120	514
	59,801	36,000

At 31 December 2003, certain listed equity investments were pledged to secure banking facilities granted to the Group (note 30).



# Notes to the Financial Statements

31 December 2003

## 20. LOANS AND ADVANCES

	GROUP	
	2003 HK\$'000	2002 HK\$'000
Loans and advances	324,503	370,444
Provisions for bad and doubtful debts	(131,793)	(137,366)
	192,710	233,078
Market value of collateral at 31 December	546,361	438,365

At 31 December 2003, certain collateral of clients was pledged to secure banking facilities granted to the Group (note 30).

In the prior year, amount receivable from fellow subsidiaries of HK\$1,240,000 was included in the Group's loans and advances. These balances were secured on marketable securities, bore interest at 4% over the Hong Kong Prime Rate and were repayable on demand. There were no such balances included in loans and advances at 31 December 2003.

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

	GROUP	
	2003 HK\$'000	2002 HK\$'000
Repayable:		
On demand	155,859	175,269
Within three months	12,394	27,269
Within one year but over three months	21,053	28,076
Within five years but over one year	3,404	2,464
	192,710	233,078
Portion classified as current assets	(189,306)	(230,614)
Portion classified as long term loans receivable under non-current assets	3,404	2,464

# Notes to the Financial Statements

31 December 2003

## 21. DEFERRED TAX ASSETS

The movements in deferred tax assets during the year are as follows:

### *Deferred tax assets*

	GROUP	
	2003 HK\$'000	2002 HK\$'000
Tax losses	1,200	—
Provision not deductible for current tax	2,765	—
Decelerated depreciation	27	—
Deferred tax assets at 31 December	3,992	—

Apart from the above deferred tax asset on tax losses, the Group has tax losses arising in Hong Kong of HK\$313,619,000 (2002: HK\$329,385,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these tax losses as they have arisen in subsidiaries that have been loss-making for some time.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

## 22. TRADE DEBTORS

The Group's trade debtors arose from securities, bullion and commodities dealings and the provision of corporate advisory and underwriting services.

An ageing analysis of the Group's trade debtors at the balance sheet date, net of provisions for bad and doubtful debts, is as follows:

	GROUP	
	2003 HK\$'000	2002 HK\$'000
Current to 90 days	75,401	56,412

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

## Notes to the Financial Statements

31 December 2003

### 23. AMOUNT DUE FROM AN INTERMEDIATE HOLDING COMPANY

The amount due from Tek Lee Finance and Investment Corporation Limited is unsecured, bears interest at the Hong Kong Prime Rate per annum and has no specific terms of repayment.

### 24. TRADE CREDITORS

The Group's trade creditors arose from securities, bullion and commodities dealings and the provision of corporate advisory and underwriting services.

An ageing analysis of the Group's trade creditors at the balance sheet date is as follows:

	GROUP	
	2003 HK\$'000	2002 HK\$'000
Current to 90 days	100,423	67,780

# Notes to the Financial Statements

31 December 2003

## 25. FINANCE LEASE PAYABLES

The Group leases certain office equipment for its business operation. These leases are classified as finance leases and have a remaining lease term of 40 months.

At the balance sheet date, the total future minimum lease payments under finance leases and their present values were as follows:

	GROUP			
	Minimum lease payments		Present value of minimum lease payments	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Amounts payable under finance leases:				
Within one year	242	242	187	171
In the second year	242	242	205	187
In the third to fifth years, inclusive	322	564	302	507
Total minimum finance lease payments	806	1,048	694	865
Future finance charges	(112)	(183)		
Total net finance lease payables	694	865		
Portion classified as current liabilities	(187)	(171)		
Non-current portion	507	694		

## Notes to the Financial Statements

31 December 2003

## 26. INTEREST-BEARING BANK AND OTHER BORROWINGS

	GROUP		COMPANY	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank overdrafts:				
Secured (note 30)	—	20,450	—	—
Unsecured	1,161	—	32	—
	1,161	20,450	32	—
Bank loans:				
Secured (note 30)	118,308	125,250	—	—
Unsecured	46,829	63,355	1,034	2,739
	165,137	188,605	1,034	2,739
Loan from ultimate holding company, unsecured	3,044	—	—	—
	169,342	209,055	1,066	2,739
Bank overdrafts, bank loans repayable:				
Within one year or on demand	142,279	201,192	1,066	1,705
In the second year	4,723	7,863	—	1,034
In the third to fifth years, inclusive	22,340	—	—	—
	169,342	209,055	1,066	2,739
Portion classified as current liabilities	(142,279)	(201,192)	(1,066)	(1,705)
Non-current portion	27,063	7,863	—	1,034

The loan from the ultimate holding company bears interest at 1% over the Hong Kong Prime Rate per annum.

# Notes to the Financial Statements

31 December 2003

## 27. SHARE CAPITAL

### *Shares*

	2003 HK\$'000	2002 HK\$'000
Authorised:		
8,000,000,000 ordinary shares of HK\$0.025 each	200,000	200,000
Issued and fully paid:		
4,861,990,940 ordinary shares of HK\$0.025 each	121,550	121,550

### *Share options*

Details of the Company's share option schemes and the share options issued under these schemes are included in note 28 to the financial statements.

### *Warrants*

At 1 January 2003, the Company had 972,333,148 outstanding warrants which entitled the holders to subscribe in cash for fully paid ordinary shares of HK\$0.025 each in the Company at a subscription price of HK\$0.08 per share on or before 21 June 2003. During the year, no warrants were exercised and the warrants were lapsed at the expiring date on 21 July 2003.

## Notes to the Financial Statements

31 December 2003

### 28. SHARE OPTION SCHEME

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

#### *Share option scheme arrangement before 18 June 2002*

On 12 July 1993, the Company adopted a share option scheme (the "Old Scheme") for the purposes of (i) providing incentives and rewards to eligible participants who contributed to the success of the Group's operations; and (ii) attracting and retaining employees of appropriate qualifications and experience to work for the Group. Eligible participants of the Old Scheme included the Company's directors (including executive, non-executive and independent non-executive directors) and other employees of the Group.

The maximum number of unexercised share options permitted to be granted under the Old Scheme was an amount equivalent, upon their exercise, to 10% of the ordinary shares of the Company in issue at any time. The maximum number of ordinary shares issuable to each eligible participant was limited to 25% of the total ordinary shares issuable under the Old Scheme at any time. During the year, no share options were granted, exercised, or cancelled under the Old Scheme.

The offer of a grant of share options under the Old Scheme was accepted within 21 business days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted was determined by the directors, and commenced after a vesting period and ended on a date which was not later than 10 years after the adoption of the Old Scheme.

The exercise price of the share options granted under the Old Scheme was determined by the directors, but was not less than the higher of (i) the nominal value of the Company's ordinary shares; or (ii) 80% of the average closing price of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of the grant.

The Old Scheme was terminated on 18 June 2002 after a new share option scheme became effective.

## Notes to the Financial Statements

31 December 2003

### 28. SHARE OPTION SCHEME (Continued)

#### Share option scheme arrangement before 18 June 2002 (Continued)

Details of the share options granted under the Old Scheme and which were cancelled or lapsed during the year are as follows:

Name or category of participant	Number of share options at beginning of year and lapsed during the year	Date of grant * of share options	Exercise period of the options	Exercise price of share **options HK\$
Executive directors:				
Ng Hung Sang, Robert	50,000,000	15 August 1993	15 August 1994 to 11 July 2003	0.386
	30,000,000	15 August 1993	15 August 1995 to 11 July 2003	0.351
	20,000,000	15 August 1993	15 August 1996 to 11 July 2003	0.319
Richard Howard Gorges	25,000,000	15 August 1993	15 August 1994 to 11 July 2003	0.386
	15,000,000	15 August 1993	15 August 1995 to 11 July 2003	0.351
	10,000,000	15 August 1993	15 August 1996 to 11 July 2003	0.319
Cheung Choi Ngor, Christina	50,000,000	15 August 1993	15 August 1994 to 11 July 2003	0.386
	30,000,000	15 August 1993	15 August 1995 to 11 July 2003	0.351
	20,000,000	15 August 1993	15 August 1996 to 11 July 2003	0.319
Ng Chun Sang	10,000,000	15 March 2000	15 March 2001 to 11 July 2003	0.262
	6,000,000	15 March 2000	15 March 2002 to 11 July 2003	0.238
	4,000,000	15 March 2000	15 March 2003 to 11 July 2003	0.238
Shing Shin Cheung, Stewart	10,000,000	10 May 2001	10 May 2002 to 11 July 2003	0.138
	6,000,000	10 May 2001	10 May 2003 to 11 July 2003	0.138
	4,000,000	10 May 2001	***	0.138
	<u>290,000,000</u>			



## Notes to the Financial Statements

31 December 2003

## 28. SHARE OPTION SCHEME (Continued)

*Share option scheme arrangement before 18 June 2002 (Continued)*

Name or category of participant	Number of share options at beginning of year and lapsed during the year	Date of grant *of share options	Exercise period of the options	Exercise price of share ** options HK\$
Other employees, in aggregate	7,500,000	15 March 2000	15 March 2001 to 11 July 2003	0.262
	4,500,000	15 March 2000	15 March 2002 to 11 July 2003	0.238
	3,000,000	15 March 2000	15 March 2003 to 11 July 2003	0.238
	8,000,000	7 June 2001	7 June 2002 to 11 July 2003	0.168
	4,800,000	7 June 2001	7 June 2003 to 11 July 2003	0.168
	3,200,000	7 June 2001	***	0.168
	10,000,000	9 July 2001	9 July 2002 to 11 July 2003	0.180
	6,000,000	9 July 2001	9 July 2003 to 11 July 2003	0.180
	4,000,000	9 July 2001	***	0.180
	<u>51,000,000</u>			
	<u>341,000,000</u>			

All the above share options lapsed during the year ended 31 December 2003.

- \* The vesting period of the share options was from the date of the grant until the commencement of the exercise period.
- \*\* The exercise price of share options was subject to a 10% annual price adjustment and adjustments in the case of rights or bonus issues, or other similar changes in the Company's share capital.
- \*\*\* The exercise period of these share options fell behind the expiry of the Old Scheme and an approval from the directors is required for the exercise of these share options.

## Notes to the Financial Statements

31 December 2003

### 28. SHARE OPTION SCHEME (Continued)

#### *Share option scheme arrangement on or after 18 June 2002*

The Company adopted a new share option scheme (the “New Scheme”), which became effective on 18 June 2002 and replaced the Old Scheme, for the purposes of (i) providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations; and (ii) attracting and retaining employees of appropriate qualifications and experience to work for the Group. Eligible participants of the New Scheme include the Company’s directors (including executive, non-executive and independent non-executive directors), employees, customers, suppliers of goods or services, business partners and minority shareholders of the Company’s subsidiaries. The New Scheme will remain in force for a period of 10 years from the date of adoption.

The maximum number of unexercised share options currently permitted to be granted under the New Scheme is an amount equivalent, upon their exercise, to 10% of the ordinary shares of the Company in issue at any time. The maximum number of ordinary shares issuable to each eligible participant under the New Scheme within any 12-month period is limited to 1% of the ordinary shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting. During the year, no share options were granted under the New Scheme.

The offer of a grant of share options under the New Scheme may be accepted within 5 business days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and is not later than 10 years from the date of the offer of the share options or the expiry of the New Scheme, whichever is earlier.

The exercise price of the share options granted under the New Scheme is determinable by the directors, but will not be less than the higher of (i) the nominal value of Company’s ordinary shares; (ii) the closing price of the Company’s shares on the Stock Exchange on the date of the offer of the grant; and (iii) the average closing price of the Company’s shares on the Stock Exchange for the five trading days immediately preceding the date of the grant.

No share options have been granted under the New Scheme since its adoption.

# Notes to the Financial Statements

31 December 2003

## 29. RESERVES

### (a) GROUP

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 27 of the financial statements.

### (b) COMPANY

	Note	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 January 2002		201,644	1,583	11,676	214,903
Premium on issue of new shares		30	—	—	30
Write-off of premium paid on repurchase of shares		—	—	(68)	(68)
Transfer from retained profits on cancellation of repurchased shares		—	18	(18)	—
Net loss for the year		—	—	(123,923)	(123,923)
At 31 December 2002 and at 1 January 2003		201,674	1,601	(112,333)	90,942
Net loss for the year		—	—	(605)	(605)
Proposed final dividend	12	—	—	(9,724)	(9,724)
<b>At 31 December 2003</b>		<b>201,674</b>	<b>1,601</b>	<b>(122,662)</b>	<b>80,613</b>

Subsequent to the year ended 31 December 2003, certain subsidiaries have declared interim dividends aggregating HK\$123,000,000 to the Company.

# Notes to the Financial Statements

31 December 2003

## 30. PLEDGE OF ASSETS

At the balance sheet date, the Group had pledged the following assets to secure banking facilities granted to the Group:

- (a) a time deposit of HK\$1,500,000 (2002: HK\$1,500,000); and
- (b) an investment property with a market value of HK\$84,000,000 (2002: HK\$78,000,000) (note 15).

In addition, listed equity investments belonging to the Group, fellow subsidiaries and clients with a total market value of approximately HK\$280,753,000 (2002: HK\$318,148,000) were pledged to banks to secure banking facilities granted to a subsidiary of the Company at the balance sheet date.

Except for the above, the Company and the Group did not have any material assets pledged to other independent third parties at 31 December 2003 (2002: Nil).

## 31. CONTINGENT LIABILITIES

At the balance sheet date, the Group's contingent liabilities not provided for in the financial statements are as follows:

	GROUP		COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	—	—	589,000	853,900
Guarantees given to banks in connection with letters of guarantee issued by the banks	5,500	5,500	5,500	5,500
	5,500	5,500	594,500	859,400

At the balance sheet date, the Company had no (2002: HK\$11,970,000) guarantee given to financial institutions for commodities and bullion trading facilities. In the prior year, the facilities were granted to two subsidiaries and remained unutilised at 31 December 2002.

# Notes to the Financial Statements

31 December 2003

## 32. OPERATING LEASE ARRANGEMENTS

### (a) As lessor

The Group leases its investment property (note 15) under operating lease arrangements, with leases negotiated for terms of three years. The terms of the leases generally also requires the tenants to pay security deposits.

At the balance sheet date, the Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	GROUP	
	2003 HK\$'000	2002 HK\$'000
Within one year	2,690	1,927
In the second to fifth years, inclusive	1,816	2,473
	<b>4,506</b>	<b>4,400</b>

### (b) As lessee

The Group leases certain of its office properties under operating lease arrangements, with leases negotiated for terms ranging from two to three years.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	GROUP	
	2003 HK\$'000	2002 HK\$'000
Within one year	8,907	10,658
In the second to fifth years, inclusive	4,493	11,997
	<b>13,400</b>	<b>22,655</b>

At 31 December 2003, the Company had not entered into any arrangement under non-cancellable operating leases (2002: Nil).

# Notes to the Financial Statements

31 December 2003

## 33. RELATED PARTY TRANSACTIONS

The Group had the following material transactions with related parties during the year:

	Notes	2003 HK\$'000	2002 HK\$'000
Consulting and servicing fees paid to fellow subsidiaries	(a)	3,420	11,856
Commission and brokerage income received from:	(b)		
Fellow subsidiaries		88	62
Directors and related parties		208	215
Interest income received from:			
Intermediate holding company	(c)	2,078	3,910
Fellow subsidiaries	(d)	78	624
Directors and related parties	(d)	329	276
Rental expenses paid to fellow subsidiaries	(e)	350	598
Corporate advisory fees and underwriting commission received from fellow subsidiaries	(f)	—	1,275

Notes:

- (a) Consulting and servicing fees relate to the advisory and management services provided by fellow subsidiaries for e-commerce consultation on feasibility studies, infrastructure planning, core engine specification, security specification, building up of internet platform and continuing maintenance; marketing and promotional services provided for image design, colour separation, typesetting, printing, publishing, and all necessary marketing and promotional arrangements through different media channels. These fees were calculated based on terms mutually agreed by the contracting parties.
- (b) Commission and brokerage income relates to the Group's securities broking business and was calculated by reference to commission and brokerage charged to third party clients.
- (c) Interest income relates to cash advances to Tek Lee Finance and Investment Corporation Limited, details of which are set out in note 23 to the financial statements.
- (d) Interest income relates to the Group's margin financing business and was calculated at 4% over the Hong Kong Prime Rate per annum.
- (e) Rental expenses relates to the leasing of certain office premises from fellow subsidiaries and was calculated by reference to market rentals.
- (f) The corporate advisory fees and underwriting commission income relate to the Group's corporate advisory and share underwriting business and were calculated by reference to rates charged to third party clients.

## Notes to the Financial Statements

31 December 2003

### 34. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of a revised SSAP during the current year, the accounting treatment and presentation of certain items in the financial statements have been revised to comply with the new requirements.

### 35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 13 April 2004.