



Shenyin Wanguo (H.K.) Limited  
申銀萬國(香港)有限公司



Corporate Finance  
Securities Research  
Securities Brokerage & Dealing  
Securities Financing

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## Directors

### Executive Directors

Jiang Guofang (*Chairman*)  
Lee Man Chun Tony (*Chief Executive Officer*)  
Ying Niankang  
Guo Chun

### Non-executive Directors

Lu Wenqing  
Chang Pen Tsao  
Xu Zhigang

### Independent Non-executive Directors

Ng Wing Hang Patrick  
Kwok Lam Kwong Larry

## Audit Committee

Lu Wenqing (*Chairman*)  
Ng Wing Hang Patrick  
Kwok Lam Kwong Larry

## Company Secretary

Yip Sin Ho

## Principal Bankers

Asia Commercial Bank Limited  
Bank of America (Asia) Limited  
Bank of China  
Dah Sing Bank Limited  
Dao Heng Bank Limited  
Liu Chong Hing Bank Limited  
Standard Chartered Bank  
The Hong Kong and  
Shanghai Banking Corporation Limited

## Auditors

Ernst & Young

## Solicitors

Baker & McKenzie

## Registered Office

28/F Citibank Tower  
Citibank Plaza  
3 Garden Road  
Central  
Hong Kong

## Share Registrars & Transfer Office

Tengis Limited  
4/F Hutchison House  
10 Harcourt Road  
Hong Kong

## CHAIRMAN'S STATEMENT

I have pleasure in presenting to the shareholders the annual report of Shenyin Wanguo (H.K.) Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2001.

### RESULTS

The year 2001 presented wide fluctuations for the financial services industry. For the year ended 31 December 2001, the Group recorded a net profit attributable to shareholders of HK\$18 million, representing a decrease of 29% over 2000. The turnover fell by 28% to HK\$369 million approximately (2000: HK\$509 million). Approximately, two-thirds of our turnover and net profit for the whole year were recorded in the first half of the year when the China-related stocks were buoyant. Our turnover contracted considerably in the second half of the year due to the US 911 Incident. The basic earnings per shares dropped by 29% to HK3.47 cents as compared to HK4.91 cents a year earlier.

### DIVIDEND

The Directors recommend the payment of a final dividend of HK 1 cent per share in respect of 2001, to shareholders whose names appear on the register of members of the Company on 29 May 2002. The proposed dividend will be paid on or about 5 June 2002 subject to the approval of the shareholders at the forthcoming Annual General Meeting of the Company.

### REVIEW OF MARKET IN 2001

The gross domestic product index growth of 0.1 per cent for the year 2001 was better than the market predictions. The local economy experienced unprecedented number of interest rate cut, amounting to a total of 11 times during 2001. The interest rate cuts boosted the local stock market at the beginning of the year. Shortly after the Hang Seng Index reached 16164 on 1 February 2001, the worldwide price slump in telecom and technology counters soured the market sentiment. From March to May, the market sentiment was picked up by the rally of red chips and H shares after the China Securities Regulatory Commission announced the opening up of the B share market to mainland investors on 19 February 2001. However, the mediocre performance of the blue chips did not help push the Hang Seng Index higher, which fell to a low of 12064 on 4 April 2001. The tragic events in the US on 11 September 2001 plunged the local stock market into one of the most difficult times since the Asian financial crisis took place in the late 1997. The Hang Seng Index fell to a near three-year low of 8934 on 21 September 2001 but it gradually crept above 10000 following the recovery of the US stock market and the resurrecting local property market. The year 2001 was closed at 11397 points with an average daily turnover at HK\$8.2 billion and in respect of 2000, 15096 points and HK\$12.7 billion.

### REVIEW OF MARKET IN 2001 *(Continued)*

In 2001, China's B share markets outperformed other Asian stock markets. The opening up of the B share markets to mainland individual investors boosted a strong sentiment towards B share markets in both Shanghai and Shenzhen. Shanghai's and Shenzhen's B share indices ended the year up 92.2% and 91.2% respectively. Remarkable surges in the average daily turnover of B shares on both Shanghai and Shenzhen Stock Exchanges were recorded in 2001 with approximately RMB1,229 million and RMB1,004 million respectively as compared to RMB140 million and RMB 87 million in 2000. On the other hand, the domestic A share markets were under a consolidation during the year. The proposed reduction of state-owned shares dampened the sentiment but the better-than-expected economic growth and the aggressive regulatory reform continued to attract liquidity. Shanghai's and Shenzhen's A share indices ended the year down 23% and 27.9% respectively.

### FUTURE PLAN & PROSPECTS

We consider cautiously that the local economy will be in recession in the second and third quarters of this year, mirroring the slow recovery of the global economy. On a brighter side, with China's accession into the World Trade Organisation, Hong Kong will continue to benefit from providing services to China, which is believed to be the locomotive that will drive Asia's economy in the years to come. That said, Hong Kong with its well established regulatory, banking and legal systems is capable of continuing its status of an important financial centre for China and a vibrant international hub for foreign investors intending to establish a presence in China. We believe that the long-term prospects of the local economy is still optimistic.

With regard to the stockbroking business, we see that the proposed Qualified Domestic Institutional Investors ("QDII") Scheme will be an exceptionally favorable opportunity for us to enhance our position in a subdued environment. We have prepared ourselves to take full advantage of the potential enormous inflow of funds from the QDII to the local stock market. First, we shall put extra effort in marketing China concept stocks to our clients as well as local and overseas market practitioners. To that effect, we have strengthened our collaboration with Shenyin and Wanguo Securities Co., Ltd. ("S&W") on the securities research front. Having recognised that quality services are of paramount importance to maintain our leading status in the market, we shall continue to provide continuing professional training to our staff, in particular, the mainland stock market updates. We shall continue to expand our professional sales force to increase our immunity to the adverse effect brought by the intense competition and the proposed cancellation of minimum brokerage requirement. Following the acquisition of Shenyin Wanguo Asset Management (Asia) Limited, we are also designing products covering China-related stocks for distribution in Asia.

### **FUTURE PLAN & PROSPECTS** *(Continued)*

Equally important, we shall continue to enhance our presence in the primary market in the wake of the China's accession into the World Trade Organisation and the remarkable economic growth of the mainland. Shenyin Wanguo Capital (H.K.) Limited ("SW Capital") and Investment Banking Division of S&W will continue to work closely to tap business opportunities with renowned corporations in relation to financial advisory and fund raising services. SW Capital will also participate in the issuance of Chinese Depository Receipts for the red chips in the mainland, which is now under the study of China Securities Regulatory Commission. Apart from increasing income, we will continue to implement a stringent review of costs to sharpen our competitive edge to cope with the ever-intensifying market conditions.

We would like to take this opportunity to thank all our staff for their dedication and hard work in weathering the hard times, and finally our shareholders and clients for their trust and support over the past year

**JIANG GUOFANG**

*Chairman*

Hong Kong, 17 April 2002

## REVIEW OF OPERATIONS

### Securities Trading and Broking

In 2001, Shenyin Wanguo Securities (H.K.) Limited (“SW Securities”), a wholly-owned subsidiary of the Company, continued to conduct securities trading and broking businesses, which largely cover Hang Seng Index constituent stocks, Hang Seng China-Affiliated Enterprise Index constituent stocks, H shares as well as B shares listed on the Shenzhen and Shanghai stock exchanges. The whole stockbroking sector faced severe hardship as a result of the economic downturn and gloomy economic outlook. SW Securities, a leading player of mainland stocks in Hong Kong, was capable of tapping the regenerated buying interest in China-related stocks in the first half of 2001 by capitalising on its expertise and resources in this area. A number of warmly received seminars were organised in 2001 with a view to marketing the mainland stocks to clients and market practitioners. The stockbroking business contributed to HK\$78 million to the Company’s turnover in 2001 with the number of clients growing 41% and the market share in the local stock exchange growing 45% for the whole year, excluding B shares dealing.

### Securities Financing

In 2001, the Group recorded interest income of approximately HK\$44 million (2000: HK\$79 million), a drop of 45%. It was mainly due to the reduction in the size of margin financing business and unprecedented number of interest rate cut. Amidst the weakening credit environment in 2001, we continued to exercise caution in the granting of securities financing packages to clients, carefully monitored its credit policy in this regard, performed regular reviews and assessments on individual cases on the basis of the gearing level, the portfolio contents and credit considerations relevant to the individual borrower.

### Corporate Finance

Our corporate finance activities are carried out by Shenyin Wanguo Capital (H.K.) Limited (“SW Capital”), a wholly-owned subsidiary of the Company. In 2001, SW Capital acted as sponsor and lead manager in the initial public offering of two Growth Enterprise Market (“GEM”) companies, namely M21 Technology Limited and GP NanoTechnology Group Limited respectively. In the same year, SW Capital also actively participated in the underwriting of new issues on both the Main Board and GEM. With regard to corporate advisory services, SW Capital was appointed as financial adviser to Dragonfield Holdings Limited (now re-named as Everbest Century Holdings Limited) in relation to its open offer. SW Capital was also appointed as the post-listing sponsor to a GEM company, namely Intcera High Tech Group Limited.

## REVIEW OF OPERATIONS *(Continued)*

### Securities Research

Our securities brokerage and dealing businesses are supported by a securities research team. With the support of the Company's single largest shareholder, Shenyin & Wanguo Securities Co., Ltd. ("S&W"), which is one of the leading securities companies in China, our securities research team is a specialist in the securities market in China and produces regular reports on the securities market in China covering the macroeconomy, market strategy as well as comments on individual China-related enterprises listed on the Hong Kong, Shanghai and Shenzhen stock exchanges. Our research team also produces detailed company analyses from time to time and on an ad hoc basis, which are circulated to our clients. In 2001, a total of 18 investment analysts from S&W joined our exchange programs. They familiarised themselves with the local economy and stock market during their visits in Hong Kong. We believe that the exchange programs are beneficial to the collaboration between S&W and us on research and investment banking fronts.

### Asset Management

As part of the expansionary drive, we completed the acquisition of 49% equity interest in Shenyin Wanguo Asset Management (Asia) Limited with the aim of designing products covering China-related stocks for distribution in Asia, in particular, Japan and Korea.

## LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

As at 31 December 2001, the Group had a cash holding of HK\$74.5 million and marketable securities of HK\$37.5 million. At the same time, the Group's total unutilised banking facilities amounted to HK\$429 million, of which HK\$52 million could be drawn down without the need of notice nor completion of condition precedent. The gearing ratio (borrowings to net asset value) as at 31 December 2001 was improved from 0.88 on 31 December 2000 to 0.52. The Group has sufficient financial resources for its day to day operations as well as spare capacity to take advantage of any investment opportunities when they arise.

During the year, the Group closely negotiated with lenders to restructure the borrowings so that the long-term assets of the Group are financed by medium and/or long-term loans. On 7 March 2002, the Group settled short-term loans of HK\$180 million by cash and by a 3-year convertible note. Such rearrangements improved the Group's liquidity from net current liabilities position to net current assets position.

## RISK MANAGEMENT

The Group has properly put credit management policies in place which address the approval of clients' trading and credit limits, regular reviews of facilities granted, monitoring of credit exposures and the follow-up of credit risks associated with overdue debts. The policies are documented in the Operational Manual which is updated regularly.

As at 31 December 2001, the advances to customers included direct loans of HK\$42 million (2000: HK\$10 million) and margin financing of HK\$207 million (2000: HK\$667 million). All direct loans were advanced to commercial and financial industry sectors, of which 48% were to property development sector with the remaining to financial sector, according to the business activities of the borrowers, while all direct loans as at 31 December 2000 were advanced to individual borrowers. In respect of margin financing, 27% (2000: 78%) is attributable to corporate borrowers, while the remaining is attributable to individual borrowers.

## SIGNIFICANT INVESTMENT HELD

At 31 December 2001, the Group held a 26.19% interest in The New China Hong Kong Highway Limited, which in turn held a 60% interest in Sichuan Chengmian Expressway Company Limited. Such investment had a carrying value of HK\$257 million as at 31 December 2001.

## CHARGE ON GROUP'S ASSET

The Group's interests in land and buildings in Hong Kong have been pledged to banks to secure the Group's long term bank loans. As at 31 December 2001, the outstanding loan was HK\$2 million.

## EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

The Group's exposure to fluctuations in exchange rates arises from its dealings in overseas share markets. Such dealings are entered into on behalf of clients of the Group and accounted for a small portion of the Group's turnover. A material portion of such overseas transactions are denominated in United States dollars. The pegged exchange rate between USD and HKD kept the Group's exchange risk exposure to a minimum and thus, no hedging is required. Exchange gains and/or losses are dealt with in the profit and loss account. The Group closely monitors its foreign currency positions and takes necessary measures if the situations so justify.

## EMPLOYEES

As at 31 December 2001, the total number of full-time employees was 211. The total staff costs for the year (excluding directors' fees) amounted to approximately HK\$50 million. During the year, the Group organised a Continuous Professional Training seminar for all licensed member staff in compliance with the relevant requirement of the Securities & Futures Commission. The Company has a share option scheme under which the directors may, at their discretion, grant options to eligible directors and employees of the Company and its subsidiaries, to subscribe for shares of the Company. During the year, no share options were granted.

# REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2001.

## **Principal activities**

The principal activity of the Company consists of investment holding. Details of the principal activities of the subsidiaries and the jointly-controlled entities are set out in notes 18 and 19, respectively, to the financial statements. There were no changes in the nature of the Group's principal activities during the year.

## **Segment information**

An analysis of the Group's turnover and contribution to results by principal activity and geographical area for the year ended 31 December 2001 is set out in note 4 to the financial statements.

## **Results and dividend**

The Group's profit for the year ended 31 December 2001 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 23 to 68.

The directors recommend the payment of a final dividend of HK 1 cent per share in respect of 2001, to the shareholders whose names appear on the register of members of the Company on 29 May 2002.

# REPORT OF THE DIRECTORS

## Summary financial information

A summary of the published results, assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out below. The amounts for the balance sheet as at 31 December 1997 have been adjusted for the effects of the retrospective changes in accounting policy affecting final proposed dividends.

	Year ended 31 December				
	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000
RESULTS					
TURNOVER	<b>368,685</b>	509,204	188,454	410,615	1,220,067
Other revenue and gains	<b>1,051</b>	54,402	2,415	7,642	277
Write-back of prior years' accrued interest expenses on settlement of other loans	<b>51,796</b>	—	—	—	—
Cost of trading securities sold	<b>(246,217)</b>	(370,595)	(57,363)	(217,662)	(852,475)
Staff costs	<b>(49,984)</b>	(52,077)	(35,659)	(45,413)	(58,862)
Provision for bad and doubtful debts	<b>(1,500)</b>	(1,500)	—	(215,451)	(23,008)
Interest expenses for financial services operations	<b>(19,462)</b>	(72,655)	(37,723)	(53,021)	(103,996)
Impairment provisions on long term investments	<b>(56,402)</b>	—	—	—	—
Depreciation and amortisation expenses	<b>(12,018)</b>	(8,468)	(4,786)	(4,552)	(3,448)
Other operating expenses, net	<b>(31,014)</b>	(47,325)	(35,631)	(30,409)	(69,451)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	<b>4,935</b>	10,986	19,707	(148,251)	109,104
Finance costs	<b>(923)</b>	(4,919)	(7,934)	(505)	(281)
Share of profits of:					
Jointly-controlled entities	<b>17,124</b>	19,304	13,844	—	—
An associate	<b>24</b>	—	—	—	—
Profit/(loss) before tax	<b>21,160</b>	25,371	25,617	(148,756)	108,823
Tax	<b>(3,116)</b>	(32)	434	888	(19,933)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	<b>18,044</b>	25,339	26,051	(147,868)	88,890
Minority interests	—	172	(1,410)	851	1,504
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<b>18,044</b>	25,511	24,641	(147,017)	90,394

# REPORT OF THE DIRECTORS

## Summary financial information *(Continued)*

	As at 31 December				
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>	1997 <i>HK\$'000</i> <i>(Restated)</i>
ASSETS, LIABILITIES AND MINORITY INTERESTS					
Total assets	<b>1,478,230</b>	1,454,636	1,572,132	1,321,197	1,695,127
Total liabilities	<b>(834,863)</b>	(829,553)	(970,900)	(748,319)	(964,216)
Minority interests	—	—	(2,515)	—	(851)
	<b><u>643,367</u></b>	<u>625,083</u>	<u>598,717</u>	<u>572,878</u>	<u>730,060</u>

### Fixed assets

Details of movements in the fixed assets of the Group are set out in note 15 to the financial statements.

### Share capital and share options

Details of movements in the Company's share capital and share options during the year, together with reasons therefor, are set out in note 31 to the financial statements.

### Purchase, redemption or sale of listed securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

### Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 32 to the financial statements.

### Distributable reserves

At 31 December 2001, the Company's reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Companies Ordinances amounted to HK\$11,737,991. In addition, the Company's share premium account, in the amount of HK\$314,739,683, may be distributed in the form of fully paid bonus shares.

## Major customers

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year.

## Directors

The directors of the Company during the year were:

### Executive Directors

Jiang Guofang (*Chairman*)  
Lee Man Chun Tony  
Ying Niankang  
Guo Chun

### Non-executive Directors

Lu Wenqing  
Chang Pen Tsao  
Xu Zhigang

### Independent Non-executive Directors

Ng Wing Hang Patrick  
Kwok Lam Kwong Larry

In accordance with article 104(A) of the Company's articles of association, Chang Pen Tsao and Ng Wing Hang Patrick will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

## Biographical details of the directors of the Company and senior management of the Group

### Executive Directors

Jiang Guofang, aged 44, has been the Chairman of the Board of the Company since 1996. He holds a Master's Degree in Business Administration from The Asia (Macau) International Open University. Prior to joining the Group in 1996, he worked in the People's Bank of China, Shanghai Branch and Industrial & Commercial Bank of China, Shanghai Branch for more than 12 years. He took the position of Executive Vice-President of the former Shanghai Shenyin Securities Co., Ltd. in 1992 and that of Shenyin & Wanguo Securities Co., Ltd. after the merger of Shanghai Shenyin Securities Co., Ltd. and Shanghai International Securities Co., Ltd in 1996.

Lee Man Chun Tony, aged 48, was appointed as a Director and Chief Executive Officer of the Company in July 2000. He is a Fellow of the Association of Chartered Certified Accountants and an Associate of the Hong Kong Society of Accountants. He has more than 20 years experience in accounting, finance and banking. He held senior positions with Standard Chartered Bank and Sanwa International Finance Ltd. before he joined the Group in 1995.

Ying Niankang, aged 50, was appointed as an Executive Director of the Company in August 1997. He was a Deputy General Manager of the International Business Division of Shenyin & Wanguo Securities Co., Ltd. and has more than 10 years experience in corporate finance. He was the Chief of Division of Technology & Economics, Department of Project Management, College of Civil Engineering, in Shanghai between 1983 and 1991. He holds a Master's Degree and a Bachelor's Degree from the Department of Industrial Economics at Shanghai University of Finance and Economics.

Guo Chun, aged 37, was appointed as an Executive Director of the Company in May 2000. He began his career in Industrial & Commercial Bank of China, Shanghai Branch in 1983. Other than the banking business, he has been working in the securities industry of the PRC since 1987. In 1990, he joined the former Shanghai Shenyin Securities Co., Ltd. He has had more than 10 years broad experience in stockbroking and investment banking in the PRC and served as a regional superintendent in Shanghai. He was appointed as Deputy Managing Director of Shenyin Wanguo (H.K.) Holdings Limited on secondment to Hong Kong in early 1997 after the merger of Shanghai Shenyin Securities Co., Ltd. and Shanghai International Securities Co., Ltd. He holds a Master's Degree in Business Administration from Murdoch University, Perth, Australia.

### Biographical details of the directors of the Company and senior management of the Group *(Continued)*

#### Non-executive Directors

Lu Wenqing, aged 43, is a Non-executive Director of the Company and the Managing Director of the International Business Division of Shenyin & Wanguo Securities Co., Ltd. He graduated from Shanghai University of Finance and Economics. He also holds a Master's Degree in Business Administration from The Asia (Macau) International Open University. Prior to joining the former Shanghai Shenyin Securities Co., Ltd., he served as a senior officer in Shanghai Trust & Investment Corporation of Industrial & Commercial Bank of China and as an attaché of the Chinese Embassy in Gabon.

Chang Pen Tsao, aged 62, is a Non-executive Director of the Company. He is the Founder and Chairman of Taiwan International Securities Group, Global Securities Finance Corp., The Business Development Foundation of The Chinese Straits, Unitech Electronics Corp., and Ideal Bike Corp. He served as a Senator of Taiwan for 9 years and was the Chairman of Kwang Hua Securities Investment & Trust Co., Ltd. He has more than 20 years experience in legal practice as a lawyer, prosecutor and district judge, as well as in business management and he has more than 10 years experience in securities investment. He received his L.L.B. Degree from Chung Hsin University, Taiwan in 1967.

Xu Zhigang, aged 46, is a Non-executive Director of the Company. He is also a Director and Vice-President of Shanghai Industrial Investment (Holdings) Co. Ltd., Director and President of Shanghai Industrial Financial (Holdings) Co. Limited, Chairman and Managing Director of SIIC Finance Co. Ltd. and Chairman of SIIC Asset Management Ltd. He graduated from the Graduate School of the People's Bank of China and Fudan University of Shanghai with a Master's Degree and a Doctorate in Economics respectively. In 1979, he joined the People's Bank of China, Shanghai Branch. In 1984, he was transferred to Industrial and Commercial Bank of China and was a director in the Administration Department and Financial Research Department at the Shanghai Branch, as well as the Executive Vice-President at the Pudong Branch. He has more than 20 years experience in the banking and finance industry.

Ng Wing Hang Patrick, aged 49, is an Independent Non-executive Director of the Company. He is a practising Certified Public Accountant in Hong Kong and is the sole proprietor of his certified public accountants firm, Messrs. Patrick Ng & Company. He also serves on the boards of several listed companies in Hong Kong.

Kwok Lam Kwong Larry, aged 46, is an Independent Non-executive Director of the Company. He is a practising solicitor in Hong Kong and is also qualified to practise as a solicitor in Australia, England and Singapore. He is also qualified as an accountant in Hong Kong and Australia. He graduated from University of Sydney, Australia with a Bachelor's Degrees in Economics and Law respectively as well as a Master's Degree in Law. He is currently the Vice-Chairman of the Consumer Council, a member of the Hospital Governing Committee of Princess Margaret Hospital, the Criminal & Law Enforcement Injuries Compensation Board and the Trade and Industry Advisory Board in Hong Kong. He is a member of the Political Consultative Committee of Guangxi in the People's Republic of China.

## Biographical details of the directors of the Company and senior management of the Group *(Continued)*

### Senior management

Chung Chin Hung Paul, aged 47, joined the Group in 1995. He is the Managing Director of Shenyin Wanguo Securities (H.K.) Limited. He has many years of experience in the securities industry and has served in various senior positions at County Natwest Securities Hong Kong Ltd., PBI Securities Hong Kong Ltd., and Magnum International Securities Ltd. He holds a Master's Degree in Business Administration from University of Santa Barbara, the United States of America.

Ho Kwong Chak, aged 47, is the Managing Director-Branch Operations of Shenyin Wanguo Securities (H.K.) Limited. He has been working in the securities industry for over 25 years. Prior to joining the Group in 1999, he served in senior positions at various renowned local brokerage houses.

Lee Siu Ming Simon, aged 40, is the Head of Corporate Finance of Shenyin Wanguo Capital (H.K.) Limited. He is a member of The Law Society of Hong Kong and is qualified as a solicitor in Hong Kong and in England and Wales. He practised in the London and Hong Kong offices of Slaughter and May before he became the Deputy Secretary of the Takeovers and Mergers Panel of the Securities and Futures Commission. Prior to joining the Group in 1996, he held a senior position with Standard Chartered Bank in Hong Kong. He holds a Bachelor's Degree in Science from University of Hong Kong and a Bachelor of Law Degree from University College of University of London in the United Kingdom.

Wong Che Keung Leslie, aged 37, is a Finance Director of the Group. Mr Wong had served as the Head of Compliance and Director of Shenyin Wanguo Securities (H.K.) Limited respectively before succeeding to the current position in 2001. Prior to joining the Group in 1996, he worked in the Securities and Futures Commission for 7 years and in the stockbroking and treasury field for another 2 years. He is a Fellow of the Association of Chartered Certified Accountants. He gained his Bachelor's Degree in Economics at University of Hong Kong and a Master's Degree in Business Administration at Chinese University of Hong Kong.

Philip Chan, aged 39, joined the Group in 1994. He is a Director of Shenyin Wanguo Research (H.K.) Limited and has been based in Hong Kong for 13 years, working first with Mansion House Group Ltd. and later for PBI Securities Hong Kong Ltd. (formerly part of the Dutch ABN-AMRO Group), as an analyst. Prior to working in Hong Kong, he worked in the United Kingdom for 3 years for two stockbroking firms, as an analyst. He was born in the United Kingdom and gained his Bachelor's Degree at University College, Cardiff, in Wales.

Yip Sin Ho Victor, aged 37, is the Legal and Compliance Officer and Secretary of the Company. Prior to joining the Group in 2000, he worked as a solicitor in a reputable law firm in Hong Kong. He has a Bachelor's Degree in Economics and another Bachelor's Degree in Laws. He further gained his Master's Degree in Laws at the University of Hong Kong.

### **Directors' service contracts**

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

### **Directors' interests in contracts**

No director had a significant beneficial interest in any contract of significance to the business of the Group to which the Company, its holding companies or any of its subsidiaries and fellow subsidiaries was a party during the year.

### **Directors' interests in shares**

At 31 December 2001, Lee Man Chun Tony had a personal interest in 1,350,000 shares of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance").

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interest in the equity or debt securities of the Company or any of its associated corporations, as defined in the SDI Ordinance, as at 31 December 2001.

### **Directors' rights to acquire shares or debentures**

Apart from as disclosed under the headings "Directors' interests in shares" above and "Share option scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

### Share option scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to employees who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors and other employees of the Group. The Scheme became effective on 12 December 1992 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. The maximum number of share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. At 31 December 2001, the number of shares issuable under share options granted under the Scheme was 11,000,000, which represented approximately 2% of the Company's shares in issue as at that date. The offer of a grant of share options may be accepted within 28 days from the date of the offer with the payment of HK\$1.00 being consideration payable by the grantee to the Company. The exercise period of the share options granted is determinable by the directors, and in any event, commences on the expiry of one month after the share options are accepted (the "Commencement Date") and ends on the fifth anniversary of the Commencement Date or the expiry date of the Scheme, whichever is earlier.

Following the changes to the Rules Governing the Listing of Securities ("Listing Rules") of The Stock Exchange of Hong Kong Limited ("SEHK") on share option schemes coming into effect on 1 September 2001, the total number of shares issued and to be issued upon exercise of the share options granted or to be granted each eligible participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the issued share capital of a listed issuer at any time. Share options granted to a director, chief executive or substantial shareholder of a listed issuer, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of a listed issuer, or to any of their associates, resulting in the shares issued and to be issued upon exercise of all options already granted and to be granted to such person representing in aggregate over 0.1% of the shares of the listed issuer in issue at any time or with an aggregate value (based on the share price of the listed issuer at the date of grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting. The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the closing price of the shares on SEHK on the date of the offer of the share options; and (ii) the average closing price of the shares on SEHK for the five trading days immediately preceding the date of the offer. Yet, the Company has not granted any options on or after 1 September 2001.

# REPORT OF THE DIRECTORS

## Share option scheme (Continued)

Movements of the share options under the Scheme during the year are as follows:

Name or category of participant	At 1 January 2001	Number Exercised during the year	At 31 December 2001	Date of grant*	Exercise period	Price of the Company's shares***		
						Exercise price** HK\$	At grant date HK\$	At exercise date HK\$
<b>Director</b>								
Lee Man Chun Tony	2,200,000	—	2,200,000	1-6-2000	1-7-2001 to 11-12-2002	0.50	0.41	—
	3,300,000	—	3,300,000	1-6-2000	1-12-2001 to 11-12-2002	0.50	0.41	—
	5,500,000	—	5,500,000	1-6-2000	1-6-2002 to 11-12-2002	0.50	0.41	—
<b>Employee</b>	200,000	(200,000)	—	4-11-1996	15-12-1996 to 14-12-2001	0.60	0.85	1.37
<b>Employee</b>	200,000	(200,000)	—	4-11-1996	20-12-1996 to 19-12-2001	0.60	0.85	1.15
	<u>11,400,000</u>	<u>(400,000)</u>	<u>11,000,000</u>					

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

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

\*\*\* The price of the Company's shares disclosed as at the date of grant is the closing price on SEHK on the trading day immediately prior to the date of grant.

Since there was no share option granted under the Scheme during the year, no value of share options granted has been disclosed accordingly.

The summarised details of the Scheme are also set out in note 31 to the financial statements.

# REPORT OF THE DIRECTORS

## Substantial shareholders

At 31 December 2001, the following interests of 10% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of shares held	
	Direct	Indirect
Shenyin Wanguo Holdings (B.V.I.) Limited	268,334,875	—
Venture-Some Investments Limited	—	268,334,875*
Shenyin Wanguo (H.K.) Holdings Limited	—	268,334,875*
Shenyin & Wanguo Securities Co., Ltd.	<u>2,045,000</u>	<u>268,334,875*</u>

\* These companies were deemed to have interests in 268,334,875 shares of the Company by virtue of their equity interests in Shenyin Wanguo Holdings (B.V.I.) Limited.

Save as disclosed above, no person had registered an interest in 10% or more of the issued share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

## Connected transactions

Details of the connected transactions are set out in note 36 to the financial statements.

## Practice Note 19 of the Listing Rules

The disclosures required by Practice Note 19 of the Listing Rules are set out in note 22 to the financial statements.

## Post balance sheet events

Details of the significant post balance sheet events are set out in note 37 to the financial statements.

# REPORT OF THE DIRECTORS

## Code of Best Practice

In the opinion of the directors, the Company has complied with the Code of Best Practice, as set out in Appendix 14 of the Listing Rules, throughout the accounting period covered by the annual report, except that the non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the Annual General Meeting of the Company in accordance with the Company's articles of association.

## Audit committee

The Company has an audit committee which was established in accordance with the requirements of the Code of Best Practice, for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises two independent non-executive directors and one non-executive director of the Company.

## Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

**JIANG GUOFANG**

*Chairman*

Hong Kong

17 April 2002



**To the members**

**Shenyin Wanguo (H.K.) Limited**

*(Incorporated in Hong Kong with limited liability)*

We have audited the financial statements on pages 23 to 68 which have been prepared in accordance with accounting principles generally accepted in Hong Kong, other than as set out below.

### **Respective responsibilities of directors and auditors**

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

### **Basis of opinion**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

## Qualified opinion arising from disagreement about accounting treatment

As more fully explained in note 22 to the financial statements, the Group's long term receivable stated in the balance sheet represents an amount of HK\$286 million due from a debtor which is experiencing liquidity problems. This amount is due for repayment and there have been no settlements in respect thereof up to the date of this report. In our opinion, the Group is unlikely to recover the full amount of HK\$286 million and a provision should have been made against this receivable in the financial statements. However, due to the absence of sufficient information, it is impracticable to quantify the amount of the provision to be made. If such provision had been made, the Group's profit before tax for the year ended 31 December 2001 and the Company's and Group's net assets at 31 December 2001 would have been reduced by the amount thereof.

Our auditors' report dated 20 April 2001, on the financial statements of the Group for the year ended 31 December 2000, was also qualified in respect of the same matter. Accordingly, some or all of the provision referred to above may relate to the prior year.

Except for the absence of a provision against the balance of HK\$286 million referred to the above, in our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2001 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

### **Ernst & Young**

*Certified Public Accountants*

Hong Kong

17 April 2002

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December 2001

	Notes	2001 HK\$	2000 HK\$
TURNOVER	5	<b>368,685,498</b>	509,203,763
Other revenue and gains	6	<b>1,051,522</b>	54,401,591
Write-back of prior years' accrued interest expenses on settlement of other loans	37	<b>51,795,688</b>	—
Cost of trading securities sold		<b>(246,217,375)</b>	(370,595,322)
Staff costs		<b>(49,983,857)</b>	(52,076,776)
Provision for bad and doubtful debts		<b>(1,500,000)</b>	(1,500,000)
Interest expenses for financial services operations		<b>(19,462,220)</b>	(72,654,858)
Impairment provisions on long term investments		<b>(56,401,830)</b>	—
Depreciation and amortisation expenses		<b>(12,018,368)</b>	(8,467,533)
Other operating expenses, net		<b>(31,013,767)</b>	(47,324,862)
<b>PROFIT FROM OPERATING ACTIVITIES</b>	7	<b>4,935,291</b>	10,986,003
Finance costs	10	<b>(922,853)</b>	(4,918,544)
Share of profits of:			
Jointly-controlled entities		<b>17,123,750</b>	19,303,405
An associate		<b>23,894</b>	—
<b>PROFIT BEFORE TAX</b>		<b>21,160,082</b>	25,370,864
Tax	11	<b>(3,116,366)</b>	(31,475)
<b>PROFIT BEFORE MINORITY INTERESTS</b>		<b>18,043,716</b>	25,339,389
Minority interests		—	171,783
<b>NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS</b>	12	<b><u>18,043,716</u></b>	<b><u>25,511,172</u></b>
<b>DIVIDEND</b>	13		
Proposed final		<b><u>5,197,591</u></b>	—
<b>EARNINGS PER SHARE</b>	14		
Basic		<b>3.47 cents</b>	4.91 cents
Diluted		<b><u>3.44 cents</u></b>	<b><u>4.91 cents</u></b>

Other than the net profit from ordinary activities attributable to shareholders, the Group had no recognised gains or losses. Accordingly, a consolidated statement of recognised gains and losses is not presented in the financial statements.

# CONSOLIDATED BALANCE SHEET

31 December 2001

	Notes	2001 HK\$	2000 HK\$
<b>NON-CURRENT ASSETS</b>			
Fixed assets	15	<b>19,768,388</b>	22,005,518
Stock and Futures Exchange trading rights	16	<b>6,738,930</b>	3,870,002
Other assets	17	<b>6,159,875</b>	6,059,875
Interests in jointly-controlled entities	19	<b>195,841,893</b>	213,815,133
Interest in an associate	20	<b>502,987</b>	—
Goodwill	21	<b>61,618,564</b>	62,958,220
Long term receivable	22	<b>285,943,299</b>	285,943,299
Long term investments	23	<b>12,732,505</b>	69,134,335
		<b>589,306,441</b>	663,786,382
<b>CURRENT ASSETS</b>			
Short term investments	23	<b>37,499,721</b>	32,961,999
Interest in an unconsolidated subsidiary	24	<b>30,499,674</b>	30,499,674
Accounts receivable	25	<b>150,283,593</b>	78,186,456
Loans and advances	26	<b>235,541,651</b>	448,729,841
Tax recoverable		—	246,529
Deposits, prepayments and other receivables		<b>6,373,815</b>	14,574,509
Bank balances held on behalf of customers		<b>354,252,486</b>	104,449,322
Cash and cash equivalents	27	<b>74,472,602</b>	81,201,489
		<b>888,923,542</b>	790,849,819
<b>CURRENT LIABILITIES</b>			
Accounts payable	28	<b>481,822,403</b>	178,562,508
Other payables and accruals		<b>17,492,687</b>	98,433,689
Tax payable		<b>438,847</b>	—
Interest-bearing bank and other borrowings	29	<b>189,367,677</b>	550,533,679
		<b>689,121,614</b>	827,529,876
<b>NET CURRENT ASSETS/(LIABILITIES)</b>		<b>199,801,928</b>	(36,680,057)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES — page 25</b>		<b>789,108,369</b>	627,106,325

# CONSOLIDATED BALANCE SHEET

31 December 2001

	Notes	2001 HK\$	2000 HK\$
TOTAL ASSETS LESS CURRENT LIABILITIES — page 24		<b>789,108,369</b>	627,106,325
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	29	<b><u>(145,741,661)</u></b>	<u>(2,023,333)</u>
		<b><u>643,366,708</u></b>	<u>625,082,992</u>
CAPITAL AND RESERVES			
Issued capital	31	<b>259,879,563</b>	259,679,563
Reserves	32	<b>378,289,554</b>	365,403,429
Proposed final dividend	13	<b>5,197,591</b>	—
		<b><u>643,366,708</u></b>	<u>625,082,992</u>

**Jiang Guofang**  
Director

**Lee Man Chun Tony**  
Director

# CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2001

	Notes	2001 HK\$	2000 HK\$
NET CASH INFLOW FROM OPERATING ACTIVITIES	33(a)	<b>189,804,787</b>	74,195,213
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest paid		<b>(922,853)</b>	(4,918,544)
Dividend from a jointly-controlled entity		<b>32,474,100</b>	22,627,915
Net cash inflow from returns on investments and servicing of finance		<b>31,551,247</b>	17,709,371
TAX			
Profits taxes refunded		<b>200,376</b>	91,287
INVESTING ACTIVITIES			
Acquisition of an associate		<b>(487,569)</b>	—
Acquisition of a Stock Exchange trading right		<b>(3,711,294)</b>	—
Increase in other assets		<b>(100,000)</b>	(145,000)
Purchases of fixed assets		<b>(7,623,309)</b>	(21,750,269)
Proceeds from disposal of a subsidiary	33(c)	<b>840,151</b>	2,576,359
Proceeds from disposal of fixed assets		<b>4,398</b>	9,702
Net cash outflow from investing activities		<b>(11,077,623)</b>	(19,309,208)
NET CASH INFLOW BEFORE FINANCING ACTIVITIES		<b>210,478,787</b>	72,686,663
FINANCING ACTIVITIES	33(b)		
Issue of shares		<b>240,000</b>	720,000
Repayment of bank loans		<b>(206,760)</b>	(163,042)
Repayment of other loans		<b>(60,907,555)</b>	(41,076,931)
Net cash outflow from financing activities		<b>(60,874,315)</b>	(40,519,973)
INCREASE IN CASH AND CASH EQUIVALENTS		<b>149,604,472</b>	32,166,690
Cash and cash equivalents at beginning of year		<b>(158,245,568)</b>	(190,412,258)
CASH AND CASH EQUIVALENTS AT END OF YEAR		<b>(8,641,096)</b>	(158,245,568)

# CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2001

	<i>Notes</i>	<b>2001</b> <b>HK\$</b>	2000 <i>HK\$</i>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances		<b>51,466,005</b>	64,317,652
Time deposits with original maturity of less than three months when acquired		<b>23,006,597</b>	16,883,837
Bank loans and overdrafts		<b><u>(83,113,698)</u></b>	<u>(239,447,057)</u>
		<b><u><u>(8,641,096)</u></u></b>	<u><u>(158,245,568)</u></u>

# BALANCE SHEET

31 December 2001

	Notes	2001 HK\$	2000 HK\$
<b>NON-CURRENT ASSETS</b>			
Interests in subsidiaries	18	<b>787,109,130</b>	740,212,879
<b>CURRENT ASSETS</b>			
Short term investments	23	—	150,000
Deposits, prepayments and other receivables		<b>2,044,352</b>	2,630,015
Cash and cash equivalents	27	<b>739,171</b>	411,602
		<b>2,783,523</b>	3,191,617
<b>CURRENT LIABILITIES</b>			
Other payables and accruals		<b>3,535,416</b>	13,797,940
Interest-bearing bank and other borrowings	29	<b>70,000,000</b>	150,505,837
		<b>73,535,416</b>	164,303,777
<b>NET CURRENT LIABILITIES</b>		<b>(70,751,893)</b>	(161,112,160)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>716,357,237</b>	579,100,719
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings	29	<b>(130,000,000)</b>	—
		<b>586,357,237</b>	<b>579,100,719</b>
<b>CAPITAL AND RESERVES</b>			
Issued capital	31	<b>259,879,563</b>	259,679,563
Reserves	32	<b>321,280,083</b>	319,421,156
Proposed final dividend	13	<b>5,197,591</b>	—
		<b>586,357,237</b>	<b>579,100,719</b>

**Jiang Guofang**  
Director

**Lee Man Chun Tony**  
Director

# NOTES TO FINANCIAL STATEMENTS

31 December 2001

## 1. CORPORATE INFORMATION

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

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

- securities trading and investment holding
- securities broking and dealing
- margin financing and direct loan operations
- provision of investment advisory services

In addition, the jointly-controlled entities of the Group were involved in highway operations during the year.

In the opinion of the directors, the ultimate holding company is Shenyin Wanguo Holdings (B.V.I.) Limited, which is incorporated in the British Virgin Islands with limited liability.

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

The following recently-issued and revised SSAPs and related Interpretations are effective for the first time for the current year’s consolidated financial statements.

- SSAP 9 (Revised): Events after the balance sheet date
- SSAP 14 (Revised): Leases
- SSAP 18 (Revised): Revenue
- SSAP 26: Segment reporting
- SSAP 28: Provisions, contingent liabilities and contingent assets
- SSAP 29: Intangible assets
- SSAP 30: Business combinations
- SSAP 31: Impairment of assets
- SSAP 32: Consolidated financial statements and accounting for investments in subsidiaries
- Interpretation 12: “Business combinations — subsequent adjustment of fair values and goodwill initially reported”
- Interpretation 13: “Goodwill — continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves”

# NOTES TO FINANCIAL STATEMENTS

31 December 2001

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

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 adopting these SSAPs and Interpretations are summarised as follows:

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. Its principal impact on these financial statements is that the proposed final dividend which is not declared and approved until after the balance sheet date, is no longer recognised as a liability at the balance sheet date, but is disclosed as an allocation of retained profits on a separate line within the capital and reserves section of the balance sheet.

SSAP 14 (Revised) prescribes the basis for accounting for finance and operating leases, and the required disclosures in respect thereof. Certain amendments have been made to the previous accounting treatments, which may be accounted for retrospectively or prospectively, in accordance with the requirements of the SSAP. The revised SSAP requirements have not had a material effect on the amounts previously recorded in the financial statements and therefore no prior year adjustment has been required. The disclosure changes under the SSAP have resulted in changes to the information disclosed for commitments under operating leases, as further detailed in note 35 to the financial statements.

SSAP 18 (Revised) prescribes the recognition of revenue and was revised as a consequence of the revision to SSAP 9 described above. Proposed final dividends from subsidiaries that are declared and approved by the subsidiaries after the balance sheet date are no longer recognised in the Company’s own financial statements for the year. This SSAP has had no significant impact on the preparation of these financial statements.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group’s predominant risks or returns are based on business segments or geographical segments and to choose one of these bases as the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 4 to the financial statements.

SSAP 28 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosure in respect thereof. This SSAP has had no significant impact on the preparation of these financial statements.

# NOTES TO FINANCIAL STATEMENTS

31 December 2001

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

SSAP 29 prescribes the recognition and measurement criteria for intangible assets, together with the disclosure requirements. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatment for intangible assets and the additional disclosures that it requires have not been significant for these financial statements. The SSAP does, however, require that impairment losses on intangible assets are aggregated with the accumulated amortisation, whereas previously they were deducted from the cost of the relevant asset. This disclosure reclassification has had no effect on the net carrying amount of intangible assets in the balance sheet.

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill on acquisition. The SSAP requires the disclosure of goodwill in the non-current assets section of the consolidated balance sheet. It requires that goodwill is amortised to the consolidated profit and loss account over its estimated useful life. This SSAP has had no significant impact on the preparation of these financial statements.

SSAP 31 prescribes the recognition and measurement criteria for impairments of assets. The SSAP is required to be applied prospectively and therefore, has had no effect on amounts reported in prior year’s financial statements.

SSAP 32 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements, and has had no significant impact on the preparation of these financial statements.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### **Basis of preparation**

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

### **Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2001, with the exception of Jammy Chai (Guangzhou) Food Company Limited, which has not been consolidated for the reasons set out in note 24 to the financial statements. 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.

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

### **Subsidiaries**

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

The Company's interests in subsidiaries are stated at cost less any impairment losses.

### **Joint venture companies**

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

- (a) a subsidiary, if the Company has unilateral control over the joint venture company;
- (b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control over the joint venture company;
- (c) an associate, if the Company does not have unilateral or joint control, but holds generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment, if the Company holds less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

### **Jointly-controlled entities**

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

# NOTES TO FINANCIAL STATEMENTS

31 December 2001

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

### **Jointly-controlled entities** *(Continued)*

The Group's share of the post acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. Where the profit sharing ratio is different from the Group's equity interest, the share of post-acquisition results of the jointly-controlled entities is determined based on the agreed profit sharing ratio. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

### **Associates**

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

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

### **Goodwill**

Goodwill arising on the acquisition of subsidiaries, which indirectly held the interest of jointly-controlled entities, represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset. The goodwill arose on the acquisition of a subsidiary which holds a jointly-controlled entity whose principal activity is the operation of a toll road. The goodwill is amortised by the annuity method over 26 years, representing the remaining joint venture period of the jointly-controlled entities holding the toll road. In determining the estimated useful life of the goodwill, directors have considered, among other things, the expected term of the economic benefits to be obtained from the jointly controlled entities. In the opinion of the directors, the amortisation period is reasonable and is reflective of the estimated useful life of such goodwill.

The compound rate of the annuity method for the amortisation of goodwill was changed from 8% to 6% with effect from 1 January 2001 as the directors considered it being more appropriate to reflect the economic value of the subsidiary with reference to the current bank deposits rate in the People's Republic of China ("PRC"). The change in this accounting estimate has increased the current year's amortisation charge by HK\$305,746.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

# NOTES TO FINANCIAL STATEMENTS

31 December 2001

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

### Impairment of assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the 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.

### Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the 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 land	2%
Buildings	4%
Leasehold improvements	Over the lease terms
Furniture, fixtures and equipment	15%-33 $\frac{1}{3}$ %
Motor vehicles	25%

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2001

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

### Other assets

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

### Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. 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.

### Stock and Futures Exchange trading rights

The eligibility rights to trade on or through The Stock Exchange of Hong Kong Limited (the "Stock Exchange trading rights") and Hong Kong Futures Exchange Limited (the "Futures Exchange trading right"), are stated at cost less accumulated amortisation and any impairment losses. The cost of the trading rights was determined based on the carrying values of the previously held shares in The Stock Exchange of Hong Kong Limited and Hong Kong Futures Exchange Limited, respectively. Amortisation is calculated on the straight-line basis to write off the cost of the trading rights over their estimated useful life of 10 years.

### Revenue recognition

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

- (a) securities and futures contracts trading profits or losses, recognised on a trade date basis;
- (b) interest income, on a time proportion basis taking into account the principal outstanding and the effective rate of interest applicable;
- (c) commission and trading revenue, on a trade date basis;
- (d) underwriting commission, when the obligation under the underwriting or sub-underwriting agreement has expired;
- (e) from the rendering of services, as the underlying services are provided; and
- (f) dividend income, when the shareholders' right to receive payment has been established.

## 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. They are stated at their fair values at the balance sheet date, on an individual investment basis.

The gains or losses arising from changes in the fair value of a security are dealt with as movements in the long term investment revaluation reserve, until the security is sold, collected, or otherwise disposed of, or until the security is determined to be impaired, when the cumulative gain or loss derived from the security recognised in the long term investment revaluation reserve, together with the amount of any further impairment, is charged to the 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, any appreciation in fair value is credited to the profit and loss account to the extent of the amount of the impairment 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.

### Staff retirement scheme

The Group operates a Mandatory Provident Fund scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. The Group also retains its previous retirement scheme (the "ORSO Scheme") registered under the Occupational Retirement Scheme Ordinance as a top-up benefit to its employees.

Contributions are made based on a percentage of the employees' relevant income or basic salaries, whichever the greater, and are charged to the profit and loss account as they become payable. When the contribution is over the statutory maximum requirements, the excess contribution will be credited as voluntary contribution to the ORSO Scheme. The employer's mandatory contributions vest fully with the employees when contributed into the MPF Scheme. The employer's voluntary contribution vest with the employees according to the vesting scale of the ORSO Scheme. Forfeited contributions in respect of employees who leave the Group before their contributions fully vest are available to the Group to offset its future voluntary contribution.

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2001

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

### Loans and advances

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

Interest on doubtful advances is credited to a suspense account which is netted in the balance sheet against the relevant advances.

### Bad and doubtful debts

Provision is made against advances and other accounts as and when they are considered doubtful. In addition, an amount is set aside as a general provision for doubtful debts. Loans and advances are stated in the financial statements net of these provisions.

### Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

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

### Deferred tax

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

### Dividend

Final dividend proposed by the directors is classified as a separate allocation of retained profits within capital and reserves in the balance sheet, until it is approved by the shareholders in a general meeting. When this dividend is approved by the shareholders and declared, it is recognised as a liability.

### Foreign currency transactions

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2001

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

### 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.

### Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

## 4. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as detailed in note 2 to the financial statements. Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segments; and (ii) on a secondary segment reporting basis, by geographical segments.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and 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 other business segments. The summarised details of the business segments are as follows:

- (a) securities trading and investment holding
- (b) securities broking and dealing
- (c) margin financing and direct loan operations
- (d) provision of investment advisory services

In determining the Group's geographical segments, turnover and results are attributed to the segments based on the location of the markets, and assets are attributed to the segments based on the location of the assets.

The Group's inter-segment sales and transfers are transacted with reference to terms and conditions as used for such transactions similar to those with third parties.

# NOTES TO FINANCIAL STATEMENTS

31 December 2001

## 4. SEGMENT INFORMATION (Continued)

The following tables represent turnover, results and certain assets, liabilities and expenditure information for the Group's business and geographical segments.

### (a) Business segments

	Securities trading and investment holding		Securities broking and dealing		Margin financing and direct loan operations		Provision of investment advisory services		Eliminated on consolidation		Total	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Segment turnover:												
External customers	243,144	353,061	77,519	72,263	43,681	79,242	4,341	4,638	—	—	368,685	509,204
Inter-segment	—	—	878	—	—	—	2,385	3,893	(3,263)	(3,893)	—	—
Total	<u>243,144</u>	<u>353,061</u>	<u>78,397</u>	<u>72,263</u>	<u>43,681</u>	<u>79,242</u>	<u>6,726</u>	<u>8,531</u>	<u>(3,263)</u>	<u>(3,893)</u>	<u>368,685</u>	<u>509,204</u>
Segment results	<u>(64,157)</u>	<u>21,416</u>	<u>4,203</u>	<u>1,778</u>	<u>71,496</u>	<u>1,514</u>	<u>926</u>	<u>1,861</u>	—	—	<u>12,468</u>	<u>26,569</u>
Unallocated expenses											<u>(7,533)</u>	<u>(15,583)</u>
Profit from operating activities											<u>4,935</u>	<u>10,986</u>
Finance costs											<u>(923)</u>	<u>(4,919)</u>
Share of profits of: Jointly-controlled entities	17,124	19,303									<u>17,124</u>	<u>19,303</u>
An associate	24	—									<u>24</u>	<u>—</u>
Profit before tax	<u>(2,631)</u>	<u>(31)</u>	<u>(285)</u>	<u>—</u>	<u>(200)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>21,160</u>	<u>25,370</u>
Tax											<u>(3,116)</u>	<u>(31)</u>
Profit before minority interests											<u>18,044</u>	<u>25,339</u>
Minority interests											<u>—</u>	<u>172</u>
Net profit from ordinary activities attributable to shareholders											<u>18,044</u>	<u>25,511</u>

# NOTES TO FINANCIAL STATEMENTS

31 December 2001

## 4. SEGMENT INFORMATION (Continued)

### (a) Business segments (Continued)

	Securities trading and investment holding		Securities broking and dealing		Margin financing and direct loan operations		Provision of investment advisory services		Eliminated on consolidation		Total	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Segment assets	371,988	429,334	587,551	267,742	235,800	449,029	8,666	11,311	—	—	1,204,005	1,157,416
Goodwill	61,619	62,958									61,619	62,958
Interests in jointly-controlled entities	195,842	213,815									195,842	213,815
Interest in an associate	503	—									503	—
Unallocated assets											16,261	20,447
Total assets	7,432	17,395	485,650	198,739	341,239	612,153	103	1,266	—	—	1,478,230	1,454,636
Segment liabilities											834,424	829,553
Unallocated liabilities											439	—
Total liabilities											834,863	829,553
Other Information												
Capital expenditure			5,464	9,686							5,464	9,686
Amortisation of trading rights			842	430							842	430
Depreciation of segment assets			3,785	1,943							3,785	1,943
Provision for bad and doubtful debts												
Impairment provisions on long term investments					1,500	1,500					1,500	1,500
Write-back of prior years' accrued interest expenses	56,402	—									56,402	—
					51,796	—					51,796	—

# NOTES TO FINANCIAL STATEMENTS

31 December 2001

## 4. SEGMENT INFORMATION (Continued)

### (b) Geographical segments

	<b>2001</b> <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Segment turnover:		
PRC		
Hong Kong	<b>301,162</b>	495,868
Elsewhere	<b>67,523</b>	12,783
Others	—	553
	<b><u>368,685</u></b>	<u>509,204</u>
Segment results:		
PRC		
Hong Kong	<b>9,386</b>	24,431
Elsewhere	<b>3,092</b>	1,942
Others	<b>(10)</b>	196
	<b><u>12,468</u></b>	<u>26,569</u>
Segment assets:		
PRC		
Hong Kong	<b>1,190,270</b>	1,147,363
Elsewhere	<b>287,960</b>	307,273
	<b><u>1,478,230</u></b>	<u>1,454,636</u>
Additions to fixed assets and intangible assets:		
PRC		
Hong Kong	<b><u>11,334</u></b>	<u>21,750</u>

# NOTES TO FINANCIAL STATEMENTS

31 December 2001

## 5. TURNOVER

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

	<b>Group</b>	
	<b>2001</b>	2000
	<b>HK\$</b>	<b>HK\$</b>
Financial services:		
Sales proceeds from securities and futures contracts trading	<b>235,117,740</b>	344,519,243
Interest income from margin financing and direct loan operations	<b>41,465,898</b>	74,323,987
Commission and brokerage income	<b>72,957,435</b>	67,706,220
Rendering of services	<b>7,950,715</b>	6,550,722
	<b>357,491,788</b>	493,100,172
Others:		
Bank interest income	<b>2,094,339</b>	4,887,679
Dividend income from		
Listed equity investments	<b>847,306</b>	718,698
Unlisted equity investment – an unconsolidated subsidiary	<b>7,086,492</b>	7,610,544
Others	<b>1,165,573</b>	2,886,670
	<b>11,193,710</b>	16,103,591
	<b>368,685,498</b>	509,203,763

## 6. OTHER REVENUE AND GAINS

	<b>Group</b>	
	<b>2001</b>	2000
	<b>HK\$</b>	<b>HK\$</b>
Gain on disposal of listed equity investments	—	54,114,553
Gain on disposal of a subsidiary	<b>495,151</b>	—
Exchange gains, net	<b>556,371</b>	287,038
	<b>1,051,522</b>	54,401,591

# NOTES TO FINANCIAL STATEMENTS

31 December 2001

## 7. PROFIT FROM OPERATING ACTIVITIES

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

	Group	
	2001 HK\$	2000 HK\$
Depreciation	9,836,346	7,320,261
Amortisation of goodwill	1,339,656	717,272
Amortisation of Stock and Futures Exchange trading rights	842,366	430,000
Staff costs (including directors' remuneration — note 8):		
Wages and salaries	48,510,441	48,982,965
Write-back of overprovision for bonuses	(1,857,647)	—
Pension contributions	4,078,555	4,236,974
Less: Forfeited contributions	(747,492)	(1,143,163)
Net pension contributions*	<u>3,331,063</u>	<u>3,093,811</u>
	<u>49,983,857</u>	<u>52,076,776</u>
Interest expenses for financial services operations		
— on bank loans and overdrafts	8,451,083	26,697,725
— on other loans wholly repayable within five years	11,011,137	45,957,133
Minimum lease payments under operating leases	10,236,471	8,164,448
Provision for settlement of claims **	—	5,492,962
Auditors' remuneration	800,000	820,000
Loss on disposal of fixed assets	19,695	2,518
Loss/(gain) on disposal of a subsidiary	(495,151)	387,486
Net realised loss/(gain) on trading of listed equity investments	11,052,557	(1,630,946)
Net unrealised loss/(gain) on listed equity investments	(3,135,403)	27,707,025
Write-back of overprovision for legal and professional fees	<u>(1,160,305)</u>	<u>—</u>

\* At 31 December 2001, the forfeited contributions available to the Group to reduce its contributions to the pension scheme in future years amounted to approximately HK\$12,450 (2000: HK\$380,076).

\*\* The comparative figure represented provision for settlement of the claims raised by two brokerage clients of the Company's subsidiaries in 1997.

# NOTES TO FINANCIAL STATEMENTS

31 December 2001

## 8. DIRECTORS' REMUNERATION

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

	<b>Group</b>	
	<b>2001</b>	2000
	<b>HK\$</b>	<b>HK\$</b>
Fees:		
Executive	—	—
Non-executive*	<b>100,000</b>	100,000
	<b>100,000</b>	100,000
Other emoluments:		
Executive		
Salaries, allowances and benefits in kind	<b>2,616,000</b>	3,165,615
Pension scheme contributions	<b>225,600</b>	753,797
	<b>2,841,600</b>	3,919,412
	<b>2,941,600</b>	4,019,412

\* Except for the above directors' fees paid to the independent non-executive directors, there were no other emoluments payable to them during the year (2000: Nil).

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

	<b>Number of directors</b>	
	<b>2001</b>	2000
Nil to HK\$1,000,000	<b>8</b>	8
HK\$1,500,001 to HK\$2,000,000	—	2
HK\$2,500,001 to HK\$3,000,000	<b>1</b>	—
	<b>9</b>	10

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2000: Nil).

# NOTES TO FINANCIAL STATEMENTS

31 December 2001

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one director (2000: two directors), details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining four (2000: three) non-director, highest paid employees are as follows:

	<b>Group</b>	
	<b>2001</b>	2000
	<i>HK\$</i>	<i>HK\$</i>
Salaries, allowances and benefits in kind	<b>7,202,868</b>	5,800,754
Bonuses	<b>552,319</b>	429,433
Pension scheme contributions	<b>363,602</b>	228,618
	<b><u>8,118,789</u></b>	<b><u>6,458,805</u></b>

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

	<b>Number of directors</b>	
	<b>2001</b>	2000
HK\$1,000,001 to HK\$1,500,000	<b>1</b>	—
HK\$1,500,001 to HK\$2,000,000	<b>—</b>	1
HK\$2,000,001 to HK\$2,500,000	<b>3</b>	2
	<b><u>4</u></b>	<b><u>3</u></b>

## 10. FINANCE COSTS

	<b>Group</b>	
	<b>2001</b>	2000
	<i>HK\$</i>	<i>HK\$</i>
Interest on bank loans and overdrafts	<b><u>922,853</u></b>	<b><u>4,918,544</u></b>

# NOTES TO FINANCIAL STATEMENTS

31 December 2001

## 11. TAX

Hong Kong profits tax has been provided at the rate of 16% on the estimated assessable profits arising in Hong Kong during the year ended 31 December 2001.

No Hong Kong profits tax was provided for the year ended 31 December 2000 because the Group companies either did not generate any assessable profits in Hong Kong, or had available tax losses brought forward to offset the assessable profits generated.

	<b>Group</b>	
	<b>2001</b>	2000
	<b>HK\$</b>	<b>HK\$</b>
Provision for the year	<b>485,000</b>	—
Share of tax attributable to jointly-controlled entities	<b>2,622,890</b>	31,475
Share of tax attributable to an associate	<b>8,476</b>	—
	<b><u>3,116,366</u></b>	<b><u>31,475</u></b>

## 12. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year dealt with in the financial statements of the Company was HK\$7,016,518 (2000: HK\$437,354).

## 13. Dividend

	<b>2001</b>	2000
	<b>HK\$</b>	<b>HK\$</b>
Proposed final — HK\$0.01 (2000:Nil) per ordinary share	<b><u>5,197,591</u></b>	<u>—</u>

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2001

## 14. EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$18,043,716 (2000: HK\$25,511,172) and the weighted average of 519,696,660 (2000: 519,339,454) ordinary shares in issue during the year.

### (b) Diluted earnings per share

The calculation of diluted earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$18,043,716 (2000: HK\$25,511,172). The weighted average number of ordinary shares used in the calculation comprises the 519,696,660 (2000: 519,339,454) ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average of 4,242,910 (2000: 457,271) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all options outstanding during the year.

## 15. FIXED ASSETS

### Group

	Land and buildings <i>HK\$</i>	Leasehold improvements <i>HK\$</i>	Furniture, fixtures and equipment <i>HK\$</i>	Motor vehicles <i>HK\$</i>	Total <i>HK\$</i>
Cost:					
At beginning of year	4,095,000	12,329,512	26,914,214	4,520,739	47,859,465
Additions	—	1,016,213	6,607,096	—	7,623,309
Disposals	—	—	(1,275,407)	—	(1,275,407)
<b>At 31 December 2001</b>	<b>4,095,000</b>	<b>13,345,725</b>	<b>32,245,903</b>	<b>4,520,739</b>	<b>54,207,367</b>
Accumulated depreciation:					
At beginning of year	839,475	8,139,134	13,525,967	3,349,371	25,853,947
Provided during the year	122,850	3,211,343	6,113,665	388,488	9,836,346
Disposals	—	—	(1,251,314)	—	(1,251,314)
<b>At 31 December 2001</b>	<b>962,325</b>	<b>11,350,477</b>	<b>18,388,318</b>	<b>3,737,859</b>	<b>34,438,979</b>
Net book value:					
<b>At 31 December 2001</b>	<b>3,132,675</b>	<b>1,995,248</b>	<b>13,857,585</b>	<b>782,880</b>	<b>19,768,388</b>
At 31 December 2000	3,255,525	4,190,378	13,388,247	1,171,368	22,005,518

The land and buildings are held under long term leases, are situated in Hong Kong and are pledged to banks to secure the Group's long term bank loans (note 29).

# NOTES TO FINANCIAL STATEMENTS

31 December 2001

## 16. STOCK AND FUTURES EXCHANGE TRADING RIGHTS

	<b>Group</b> <i>HK\$</i>
Cost:	
At beginning of year	4,300,002
Additions	<u>3,711,294</u>
<b>At end of year</b>	<b><u>8,011,296</u></b>
Accumulated amortisation:	
At beginning of year	430,000
Provided during the year	<u>842,366</u>
<b>At end of year</b>	<b><u>1,272,366</u></b>
Net book value:	
<b>At 31 December 2001</b>	<b><u>6,738,930</u></b>
At 31 December 2000	<u>3,870,002</u>

## 17. OTHER ASSETS

	<b>Group</b>	
	<b>2001</b> <i>HK\$</i>	2000 <i>HK\$</i>
Club debentures	<b>2,470,000</b>	2,470,000
Prepayments and deposits	<b><u>3,689,875</u></b>	<u>3,589,875</u>
	<b><u>6,159,875</u></b>	<u>6,059,875</u>

# NOTES TO FINANCIAL STATEMENTS

31 December 2001

## 18. INTERESTS IN SUBSIDIARIES

	Company	
	2001 HK\$	2000 HK\$
Unlisted shares, at cost	90,910,146	90,910,146
Due from subsidiaries	<u>788,155,821</u>	<u>729,155,287</u>
	<b>879,065,967</b>	820,065,433
Due to subsidiaries	<u>(16,959,283)</u>	<u>(4,855,000)</u>
	<b>862,106,684</b>	815,210,433
Provision for impairment	<u>(74,997,554)</u>	<u>(74,997,554)</u>
	<b><u>787,109,130</u></b>	<b><u>740,212,879</u></b>

The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment, except for amounts due from subsidiaries of HK\$224,885,263 (2000: HK\$367,326,325) which bore interest ranging from deposit saving rate to the prime rate plus 2.75% (2000: deposit saving rate to the prime rate plus 2.5%) per annum.

All of the principal subsidiaries, unless otherwise indicated, are incorporated and operating in Hong Kong. Details of the Company's principal subsidiaries at the balance sheet date are as follows:

Name	Nominal value of issued and fully paid share capital	Percentage of ordinary shares held		Principal activities
		Direct	Indirect	
Shenyin Wanguo Securities (H.K.) Limited	300,000 ordinary shares of HK\$100 each	100	—	Securities broking and margin financing
Shenyin Wanguo Finance (H.K.) Limited	25,000,000 ordinary shares of HK\$1 each	100	—	Provision of financial services
Shenyin Wanguo Capital (H.K.) Limited	600,000 ordinary shares of HK\$10 each	100	—	Corporate finance

# NOTES TO FINANCIAL STATEMENTS

31 December 2001

## 18. INTERESTS IN SUBSIDIARIES (Continued)

Name	Nominal value of issued and fully paid share capital	Percentage of ordinary shares held		Principal activities
		Direct	Indirect	
Shenyin Wanguo Futures (H.K.) Limited	8,000,000 ordinary shares of HK\$1 each	100	—	Futures and options dealing
Shenyin Wanguo Brokerage (H.K.) Limited	5,000,000 ordinary shares of HK\$1 each	100	—	Securities broking
Shenyin Wanguo Research (H.K.) Limited	300,000 ordinary shares of HK\$1 each	100	—	Provision of securities research services
Shenyin Wanguo Enterprises (H.K.) Limited	15,000,000 ordinary shares of HK\$1 each	100	—	Provision of management and treasury services
Sparkle Well Limited	2 ordinary shares of HK\$1 each	100	—	Property holding
Wealthy Limited	2 ordinary shares of HK\$1 each	100	—	Property holding
Shenyin Wanguo Strategic Investments (H.K.) Limited	10,000 ordinary shares of HK\$1 each	100	—	Securities trading and investment
First Million Holdings Limited*	1 ordinary share of US\$1	100	—	Securities trading and investment
Shenyin Wanguo Foods (H.K.) Limited	100 ordinary shares of HK\$1 each	—	100	Investment holding

# NOTES TO FINANCIAL STATEMENTS

31 December 2001

## 18. INTERESTS IN SUBSIDIARIES (Continued)

Name	Nominal value of issued and fully paid share capital	Percentage of ordinary shares held		Principal activities
		Direct	Indirect	
Shenyin Wanguo Trading (H.K.) Limited	375,000 ordinary shares of HK\$1 each	100	—	Share trading and investment holding
Shenyin Wanguo (Holdings) Limited	2 ordinary shares of HK\$1 each	100	—	Investment holding
Shenyin Wanguo Nominees (H.K.) Limited	1,000 ordinary shares of HK\$1 each	—	100	Provision of share custodian and nominee services
Shenyin Wanguo Online Limited	1,000 ordinary shares of HK\$1 each	100	—	Provision of internet trading
Crux Assets Limited*	1 ordinary share of US\$1	—	100	Investment holding

\* Incorporated in the British Virgin Islands

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2001

## 19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	<b>2001</b>	<b>Group</b>
	<b>HK\$</b>	<b>2000</b>
		<b>HK\$</b>
Share of net assets	<b><u>195,841,893</u></b>	<b><u>213,815,133</u></b>

Particulars of the jointly-controlled entities are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of			Principal activities
			Ownership interest	Voting interest	Profit sharing	
The New China Hong Kong Highway Ltd. ("NCHK")	Corporate	British Virgin Islands	26.19	26.19	26.19	Investment holding
Sichuan Chengmian Expressway Co. Ltd. ("SCECL")	Corporate	PRC	15.71	15.71	26.19	Highway operations

All of the above investments in jointly-controlled entities are indirectly held by the Company.

NCHK holds a 60% equity interest in SCECL. In accordance with the terms of the revised joint venture agreement of SCECL date 18 March 1994 and based on the financial statements of the joint venture prepared under the generally accepted accounting principles in PRC, NCHK is entitled to all of the net profits generated by SCECL from the date of registration of SCECL to 8 November 2003. Thereafter, NCHK is entitled to 60% and 50% of the net profits generated by SCECL for the periods from 9 November 2003 to 8 November 2008 and from 9 November 2008 to 8 November 2018, respectively. For the period from 9 November 2018 to the end of the joint venture period, NCHK is entitled to 40% of the net profits generated by SCECL.

# NOTES TO FINANCIAL STATEMENTS

31 December 2001

## 19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (Continued)

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

	NCHK and its subsidiary	
	2001 HK\$'000	2000 HK\$'000
Turnover	<b>169,794</b>	151,143
Profit before tax	<b>65,305</b>	73,705
Fixed assets	<b>1,624,406</b>	1,650,490
Current assets	<b>100,355</b>	115,961
Current liabilities	<b>(66,132)</b>	(32,792)
Long term liabilities	<b>(15,729)</b>	(45,460)
Minority interests	<b>(895,126)</b>	(871,799)
Net assets	<b>747,774</b>	816,400

## 20. INTEREST IN AN ASSOCIATE

	Group	
	2001 HK\$	2000 HK\$
Share of net assets	<b>502,987</b>	—

Particulars of the associate acquired during the year are as follows:

Name	Business structure	Place of incorporation and operations	Percentage of ownership interest attributable to the Group	Principal activities
Shenyin Wanguo Asset Management (Asia) Limited (formerly known as Shenyin Wanguo Van Eck Asset Management (Asia) Limited)	Corporate	Hong Kong	49	Provision of asset management services

# NOTES TO FINANCIAL STATEMENTS

31 December 2001

## 21. GOODWILL

	<b>Group</b> <i>HK\$</i>
Cost:	
At beginning and end of year	<u>64,658,842</u>
Accumulated amortisation:	
At beginning of year	1,700,622
Provided for the year	<u>1,339,656</u>
At end of year	<u>3,040,278</u>
Net book values:	
<b>At 31 December 2001</b>	<b><u>61,618,564</u></b>
At 31 December 2000	<u>62,958,220</u>

## 22. LONG TERM RECEIVABLE

	<b>Group</b>	
	<b>2001</b> <i>HK\$</i>	2000 <i>HK\$</i>
Amounts receivable	<b>292,767,388</b>	292,767,388
Less: Portion classified as current and included in advances to customers	<b>(6,824,089)</b>	(6,824,089)
Long term receivable	<b><u>285,943,299</u></b>	<u>285,943,299</u>

At 31 December 2001, the Group had amounts receivable from Century City International Holdings Limited ("CCIH") and its subsidiaries (collectively the "CC Group") in the aggregate amount of HK\$292,767,388 (2000: HK\$292,767,388), representing approximately 46% (2000: 47%) of the Group's net assets at the balance sheet date. The aggregate balance comprises receivables arising from securities and options trading, a claim under an indemnity in relation to the acquisition of the interests in jointly-controlled entities and accrued interest income. Apart from a balance of HK\$6.8 million (2000: HK\$6.8 million) arising from securities trading and accrued interest income which is adequately secured by marketable securities and classified as a current asset, all of the remaining balance of HK\$286 million is guaranteed by CCIH and is due for repayment.

# NOTES TO FINANCIAL STATEMENTS

31 December 2001

## 22. LONG TERM RECEIVABLE (Continued)

In view of the recently reported developments and financial position of the CC Group, the directors consider that the receivable of HK\$286 million is unlikely to be recovered within the next twelve months and, accordingly, it has been classified as a long term receivable. Notwithstanding the uncertainty surrounding the full recovery of this receivable, no provision against it has been made in the preparation of these financial statements. The amounts receivable from the CC Group bear interest ranging from prime rate plus 3.05% to 4% per annum.

## 23. INVESTMENTS

	Group	
	2001 HK\$	2000 HK\$
Long term investments		
Listed equity investments in Hong Kong at fair value	<b><u>12,732,505</u></b>	<u>69,134,335</u>
Short term investments		

	Group		Company	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Listed equity trading securities at market value:				
Hong Kong	<b>23,488,803</b>	31,719,652	—	—
Overseas	<b>14,010,918</b>	1,092,347	—	—
	<b><u>37,499,721</u></b>	<u>32,811,999</u>	<u>—</u>	<u>—</u>
Unlisted equity investment at fair value	—	150,000	—	150,000
	<b><u>37,499,721</u></b>	<b><u>32,961,999</u></b>	<u>—</u>	<u>150,000</u>

The market value of the Group's long term listed equity investments at the date of approval of these financial statements was approximately HK\$9,523,563 (2000: HK\$12,846,316)

Certain listed investments of the Group have been pledged to secure the Group's bank and other borrowings (note 29).

# NOTES TO FINANCIAL STATEMENTS

31 December 2001

## 24. INTEREST IN AN UNCONSOLIDATED SUBSIDIARY

	Group	
	2001 HK\$	2000 HK\$
Unlisted shares, at fair value	<b><u>30,499,674</u></b>	<u>30,499,674</u>

Particulars of the unconsolidated subsidiary are as follows:

Name	Place of incorporation and operations	Nominal value of issued capital	Percentage of ordinary shares indirectly held	Principal activities
Jammy Chai (Guangzhou) Food Company Limited	PRC	RMB52,232,860	50.2	Production of non-staple food stuffs and flavourings

The Group's share of the profit of the unconsolidated subsidiary for the year ended 31 December 2001 and the retained profits at the end of the year, not dealt with in the Group's financial statements, amounted to HK\$4,661,805 and HK\$5,690,247, respectively (2000: HK\$7,126,663 and HK\$8,114,934, respectively).

Subsequent to the balance sheet date, on 28 February 2002, a wholly-owned subsidiary of the Company entered into a conditional sale and purchase agreement to dispose of its entire interests in two subsidiaries, of which the interest in an unconsolidated subsidiary is the major asset, at a consideration of HK\$50,000,000 (note 37).

## 25. ACCOUNTS RECEIVABLE

	Group	
	2001 HK\$	2000 HK\$
Accounts receivable	<b>164,783,038</b>	92,685,901
Less: Provisions for doubtful debts — specific	<b><u>(14,499,445)</u></b>	<u>(14,499,445)</u>
	<b><u>150,283,593</u></b>	<u>78,186,456</u>

# NOTES TO FINANCIAL STATEMENTS

31 December 2001

## 25. ACCOUNTS RECEIVABLE (Continued)

An aged analysis of accounts receivable is as follows:

	2001 HK\$	2000 HK\$
Current to 30 days	131,671,671	78,329,084
31 – 60 days	5,402,814	62,634
61 – 90 days	422,216	102,357
Over 90 days	27,286,337	14,191,826
	<u>164,783,038</u>	<u>92,685,901</u>

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

## 26. LOANS AND ADVANCES

	Group	
	2001 HK\$	2000 HK\$
Loans and advances to customers:		
Secured	217,010,635	544,707,810
Unsecured	26,018,313	120,660,897
Interest receivable	5,485,727	12,088,941
	<u>248,514,675</u>	677,457,648
Less: Provision for doubtful debts		
Specific	(12,908,116)	(228,662,899)
General	(64,908)	(64,908)
	<u>235,541,651</u>	<u>448,729,841</u>

# NOTES TO FINANCIAL STATEMENTS

31 December 2001

## 26. LOANS AND ADVANCES (Continued)

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

	<b>2001</b> <b>HK\$</b>	2000 <i>HK\$</i>
Repayable on demand	<b>173,940,132</b>	421,788,763
Within three months	<b>20,000,000</b>	—
One year or less, but over three months	<b>21,756,585</b>	10,108,408
Undated	<b>32,817,958</b>	245,560,477
	<b><u>248,514,675</u></b>	<b><u>677,457,648</u></b>

As at 31 December 2001, the total market value of securities pledged by customers as collateral in respect of loans to customers was HK\$757,286,971 (2000: HK\$1,472,317,067).

## 27. CASH AND CASH EQUIVALENTS

	<b>Group</b>		<b>Company</b>	
	<b>2001</b> <b>HK\$</b>	2000 <i>HK\$</i>	<b>2001</b> <b>HK\$</b>	2000 <i>HK\$</i>
Bank balances	<b>51,466,005</b>	64,317,652	<b>739,171</b>	411,602
Time deposits with original maturity of less than three months when acquired	<b>23,006,597</b>	16,883,837	—	—
	<b><u>74,472,602</u></b>	<b><u>81,201,489</u></b>	<b><u>739,171</u></b>	<b><u>411,602</u></b>

## 28. ACCOUNTS PAYABLE

An aged analysis of accounts payable is as follows:

	<b>Group</b>	
	<b>2001</b> <b>HK\$</b>	2000 <i>HK\$</i>
Current to 30 days	<b><u>481,822,403</u></b>	<b><u>178,562,508</u></b>

An amount of client account payable balances of HK\$114,711,823 as at 31 December 2000, has been reclassified from other payables to accounts payable in the 2000 comparative amounts on this year's consolidated balance sheet for a clearer presentation of the Group's financial position.

# NOTES TO FINANCIAL STATEMENTS

31 December 2001

## 29. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Group		Company	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Bank overdrafts:				
Secured	<b>23,052,973</b>	110,014,705	—	—
Unsecured	<b>15,060,725</b>	9,668,478	—	505,837
Bank loans:				
Secured	<b>46,995,640</b>	121,966,274	—	—
Other loans:				
Secured	<b>50,000,000</b>	160,907,555	—	—
Unsecured	<b>180,000,000</b>	130,000,000	<b>180,000,000</b>	130,000,000
Loan from a related party (note 36)	<b>20,000,000</b>	20,000,000	<b>20,000,000</b>	20,000,000
	<b><u>335,109,338</u></b>	<u>552,557,012</u>	<b><u>200,000,000</u></b>	<u>150,505,837</u>

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

	Group		Company	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Bank overdrafts repayable within one year or on demand	<b>38,113,698</b>	119,683,183	—	505,837
Bank loans repayable:				
Within one year or on demand	<b>45,253,979</b>	119,942,941	—	—
In the second year	<b>263,106</b>	199,788	—	—
In the third to fifth years, inclusive	<b>844,072</b>	749,089	—	—
Beyond five years	<b>634,483</b>	1,074,456	—	—
	<b>46,995,640</b>	121,966,274	—	—
Other loans repayable:				
Within one year or on demand	<b>106,000,000</b>	310,907,555	<b>70,000,000</b>	150,000,000
In the third to fifth years, inclusive	<b>144,000,000</b>	—	<b>130,000,000</b>	—
	<b>250,000,000</b>	310,907,555	<b>200,000,000</b>	150,000,000
	<b>335,109,338</b>	552,557,012	<b>200,000,000</b>	150,505,837
Portion classified as current liabilities	<b>(189,367,677)</b>	(550,533,679)	<b>(70,000,000)</b>	(150,505,837)
Long term portion	<b>145,741,661</b>	2,023,333	<b>130,000,000</b>	—

# NOTES TO FINANCIAL STATEMENTS

31 December 2001

## 29. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

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

The loan from a related party is unsecured, repayable on 31 March 2002 and bears interest at the prime rate (2000: the prime rate).

The bank loans of HK\$1,995,640 (2000: HK\$2,202,400) are secured by the pledge of the land and buildings of the Group (note 15).

## 30. DEFERRED TAX

No deferred tax has been provided as there were no significant timing differences at the balance sheet date (2000: Nil).

The principal components of the Group's unprovided deferred tax asset calculated at 16% (2000: 16%) are as follows:

	2001 HK\$	2000 HK\$
Tax losses	29,963,820	37,412,002
Accelerated depreciation allowances	688,939	(1,077,722)
	<u>30,652,759</u>	<u>36,334,280</u>

## 31. ISSUED CAPITAL

Shares	Company	
	Number of ordinary shares of HK\$0.50 each	HK\$
Authorised	2,000,000,000	1,000,000,000
Issued and fully paid:		
At 1 January 2000	518,159,126	259,079,563
Issue of 1,200,000 shares on exercise of options	1,200,000	600,000
At 31 December 2000 and 1 January 2001	519,359,126	259,679,563
Issue of 400,000 shares on exercise of options	400,000	200,000
<b>At 31 December 2001</b>	<u><b>519,759,126</b></u>	<u><b>259,879,563</b></u>

## 31. ISSUED CAPITAL *(Continued)*

### Share options

Under a share option scheme (the "Scheme") adopted by the shareholders at the Company's extraordinary meeting on 12 December 1992, the directors may, at any time within 10 years from 12 December 1992, grant options to any employees, including directors, to subscribe for shares in the Company. The maximum number of share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The offer of a grant of share options may be accepted within 28 days from the date of the offer with the payment of HK\$1.00 being consideration payable by the grantee to the Company. The exercise period of the share options granted is determinable by the directors, and in any event, commences on the expiry of one month after the share options are accepted (the "Commencement Date") and ends on the fifth anniversary of the Commencement Date or the expiry date of the Scheme, whichever is earlier.

On 18 October 1996, a total of 14,600,000 share options, which potentially represented 4.38% of the then issued share capital of the Company, were granted to certain senior executives, including a director of the Company, at an exercise price of HK\$0.65 per share which was 20% below the average closing price of the Company's shares quoted on The Stock Exchange of Hong Kong Limited for the five trading days immediately preceding the date on which the options were offered. These options can be exercised within five years from dates commencing between 4 December 1996 and 28 December 1996.

As a result of the rights issue completed on 13 January 1997, the exercise price of the share options was adjusted to HK\$0.60 per share in accordance with the terms of the Scheme.

On 1 June 2000, 11,000,000 share options were granted to a director of the Company at an exercise price of HK\$0.50 per share. These options are divided into three blocks and can be exercised commencing from 1 July 2001, 1 December 2001 and 1 June 2002, respectively, to 11 December 2002.

14,200,000 share options were exercised in prior years since the adoption of the Scheme. During the year ended 31 December 2001, a further 400,000 options were exercised. At the balance sheet date, the Company had 11,000,000 outstanding options entitling the holder, who is a director of the Company, to subscribe in cash at any time during the exercise period. The exercise in full of such options would, under the present capital structure of the Company, result in the issue of 11,000,000 additional ordinary shares for aggregate proceeds, before the related issue expenses, of HK\$5,500,000.

# NOTES TO FINANCIAL STATEMENTS

31 December 2001

## 32. RESERVES

	Share premium account HK\$	Capital reserve HK\$	General reserve HK\$	Exchange fluctuation reserve HK\$	Retained profits HK\$	Total HK\$
<b>Group</b>						
At 1 January 2000	314,579,683	15,043	138,611	(134,837)	25,038,920	339,637,420
Issue of shares	120,000	—	—	—	—	120,000
Exchange realignments	—	—	—	134,837	—	134,837
Net profit for the year	—	—	—	—	25,511,172	25,511,172
At 31 December 2000 and 1 January 2001	314,699,683	15,043	138,611	—	50,550,092	365,403,429
Issue of shares	40,000	—	—	—	—	40,000
Net profit for the year	—	—	—	—	18,043,716	18,043,716
Proposed final dividend	—	—	—	—	(5,197,591)	(5,197,591)
<b>At 31 December 2001</b>	<b>314,739,683</b>	<b>15,043</b>	<b>138,611</b>	<b>—</b>	<b>63,396,217</b>	<b>378,289,554</b>
Reserves retained by:						
Company and subsidiaries	314,739,683	15,043	138,611	—	63,380,799	378,274,136
An associate	—	—	—	—	15,418	15,418
Jointly-controlled entities	—	—	—	—	—	—
<b>At 31 December 2001</b>	<b>314,739,683</b>	<b>15,043</b>	<b>138,611</b>	<b>—</b>	<b>63,396,217</b>	<b>378,289,554</b>
Company and subsidiaries	314,699,683	15,043	138,611	—	41,535,860	356,389,197
Jointly-controlled entities	—	—	—	—	9,014,232	9,014,232
At 31 December 2000	314,699,683	15,043	138,611	—	50,550,092	365,403,429
<b>Company</b>						
At 1 January 2000	314,579,683	—	656,293	—	3,627,826	318,863,802
Issue of shares	120,000	—	—	—	—	120,000
Net profit for the year	—	—	—	—	437,354	437,354
At 31 December 2000 and 1 January 2001	314,699,683	—	656,293	—	4,065,180	319,421,156
Issue of shares	40,000	—	—	—	—	40,000
Net profit for the year	—	—	—	—	7,016,518	7,016,518
Proposed final dividend	—	—	—	—	(5,197,591)	(5,197,591)
<b>At 31 December 2001</b>	<b>314,739,683</b>	<b>—</b>	<b>656,293</b>	<b>—</b>	<b>5,884,107</b>	<b>321,280,083</b>

The general reserves of the Group and the Company represent prior year appropriations of profits, which are distributable.

# NOTES TO FINANCIAL STATEMENTS

31 December 2001

## 33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Reconciliation of profit from operating activities to net cash inflow from operating activities

	2001 HK\$	2000 HK\$
Profit from operating activities	4,935,291	10,986,003
Write-back of prior years' accrued interest expenses on settlement of other loans	<b>(51,795,688)</b>	—
Impairment provisions on long term investments	<b>56,401,830</b>	—
Provision for bad and doubtful debts	<b>1,500,000</b>	1,500,000
Depreciation	<b>9,836,346</b>	7,320,261
Amortisation	<b>2,182,022</b>	1,147,272
Loss/(gain) on disposal of a subsidiary	<b>(495,151)</b>	387,486
Loss on disposal of fixed assets	<b>19,695</b>	2,518
Decrease/(increase) in short term investments	<b>(4,537,722)</b>	19,062,353
Decrease/(increase) in accounts receivable	<b>(72,097,137)</b>	241,890,542
Decrease/(increase) in loans and advances	<b>211,688,190</b>	(115,564,229)
Decrease/(increase) in deposits, prepayments and other receivables	<b>7,855,694</b>	(5,049,851)
Increase in bank balances held on behalf of customers	<b>(249,803,164)</b>	(17,764,938)
Increase/(decrease) in accounts payable	<b>303,259,895</b>	(108,566,563)
Increase/(decrease) in other payables and accruals	<b>(29,145,314)</b>	38,844,359
Net cash inflow from operating activities	<b><u>189,804,787</u></b>	<b><u>74,195,213</u></b>

# NOTES TO FINANCIAL STATEMENTS

31 December 2001

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

### (b) Analysis of changes in financing during the year

	Issued capital (including share premium account) HK\$	Bank loans HK\$	Other loans HK\$	Loan from a related party HK\$	Minority interests HK\$
Balance at 1 January 2000	573,659,246	2,365,442	331,984,486	20,000,000	2,514,670
Net cash inflow/(outflow) from financing	720,000	(163,042)	(41,076,931)	—	—
Share of loss for the year	—	—	—	—	(171,783)
Disposal of a subsidiary	—	—	—	—	(2,342,887)
Balance at 31 December 2000 and 1 January 2001	574,379,246	2,202,400	290,907,555	20,000,000	—
Net cash inflow/(outflow) from financing	240,000	(206,760)	(60,907,555)	—	—
<b>Balance at 31 December 2001</b>	<b>574,619,246</b>	<b>1,995,640</b>	<b>230,000,000</b>	<b>20,000,000</b>	<b>—</b>

# NOTES TO FINANCIAL STATEMENTS

31 December 2001

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

### (c) Disposal of a subsidiary

	<b>2001</b> <i>HK\$</i>	2000 <i>HK\$</i>
Net assets disposed of:		
Cash and bank balances	—	138,690
Fixed assets	—	1,671,174
Short term investments	—	2,407,945
Deposit, prepayment and other receivables	<b>345,000</b>	1,374,821
Other payables and accruals	—	(282,045)
Due from/(to) a Group company	<b>(359,498)</b>	13,863
Minority interests	—	(2,342,887)
	<b>(14,498)</b>	2,981,561
Exchange reserve realised on disposal	—	134,837
Gain/(loss) on disposal	<b>495,151</b>	(387,486)
	<b>480,653</b>	2,728,912
Satisfied by:		
Amount due from/(to) a Group company	<b>(359,498)</b>	13,863
Cash	<b>840,151</b>	2,715,049
	<b>480,653</b>	2,728,912

Analysis of net inflow of cash and cash equivalents in respect of the disposal of a subsidiary:

	<b>2001</b> <i>HK\$</i>	2000 <i>HK\$</i>
Cash and bank balance disposed of	—	(138,690)
Cash consideration	<b>840,151</b>	2,715,049
Net inflow of cash and cash equivalents in respect of disposal of a subsidiary	<b>840,151</b>	2,576,359

The subsidiary disposed of during the year contributed HK\$840,151 (2000: HK\$2,576,359) in respect of investing activities and had no significant impact in respect of net operating cash flows, or on the cash flows in respect of returns on investments and servicing of finance, financing activities and tax.

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2001

## 34. CONTINGENT LIABILITIES

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

	Group		Company	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Guarantees in respect of bank loans and other facilities granted to subsidiaries	—	—	<b>532,570,000</b>	466,396,000

As at 31 December 2001, the bank facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK\$85,108,000 (2000: HK\$351,675,000).

## 35. COMMITMENTS

### (a) Capital commitments

	Group	
	2001 HK\$	2000 HK\$
Contracted, but not provided for	<b>1,203,585</b>	633,687

### (b) Operating lease commitments as a lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to four years.

At 31 December 2001, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2001 HK\$	2000 HK\$ (restated)
Within one year	<b>4,195,377</b>	6,885,211
In the second to fifth years, inclusive	<b>1,125,026</b>	3,018,711
	<b>5,320,403</b>	9,903,922

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

# NOTES TO FINANCIAL STATEMENTS

31 December 2001

## 35. COMMITMENTS *(Continued)*

SSAP 14 (Revised) requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than only the payments to be made during the next year as was previously required. Accordingly, the prior year's comparative amounts for operating leases as lessee in note (b) above have been restated to accord with the current year's presentation.

## 36. CONNECTED AND RELATED PARTY TRANSACTIONS

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

- (i) On 15 September 2000, the Group agreed to acquire from Shanghai Shenyin Securities (H.K.) Limited, a related company of the Company, its securities dealing, trading, underwriting, advisory and margin financing business (including a Stock Exchange trading right attaching thereto) and certain assets in relation to such business for a cash consideration of HK\$3,785,000, based on an internal valuation of the business prepared by the directors. The acquisition was completed on 10 January 2001 when the transfer of the Stock Exchange trading right was approved by The Stock Exchange of Hong Kong Limited.
- (ii) The Group had an outstanding loan advanced from the substantial shareholder of the Company, Venture-Some Investments Limited, of HK\$20,000,000 (2000: HK\$20,000,000) as further detailed in note 29 to the financial statements.
- (iii) The Group paid research fee of HK\$795,000 (2000: Nil) to the substantial shareholder of the Company, Shenyin & Wanguo Securities Co., Ltd.

## 37. POST BALANCE SHEET EVENTS

- (a) Subsequent to the balance sheet date, on 28 February 2002, a wholly-owned subsidiary of the Company entered into a conditional sale and purchase agreement to dispose of its entire interests in two subsidiaries, the major interest of which is an unconsolidated subsidiary, and to assign the aggregate shareholders' loans granted to the subsidiaries amounting up to the date of completion of the agreement to the acquirer, at a total consideration of HK\$50,000,000 (note 24), resulting in a net gain on disposal of HK\$19,500,000, before related expenses. The completion of this disposal will take place upon the completion of the due diligence to be carried out by the acquirer and the approval of the relevant regulatory authorities, if necessary, on or before 30 June 2002 or such later day as agreed by the acquirer and the acquiree.
- (b) Subsequent to the balance sheet date, on 7 March 2002, following discussions in November 2001, the Group entered into a formal settlement agreement to issue a 3-year 3% convertible note (extendable for another 2 years subject to certain conditions) in a principal amount of HK\$132,000,000 with a total interest of approximately HK\$12,000,000 to be paid by 7 March 2005, and pay HK\$36,000,000 in cash on that date as full and final settlement of the outstanding indebtedness owing by the Group to an independent third party with an aggregate principal amount of HK\$180,000,000, representing unsecured other loans of HK\$130,000,000 and a secured other loan of HK\$50,000,000 included in note 29, plus accrued interest thereon.

# NOTES TO FINANCIAL STATEMENTS

31 December 2001

## 37. POST BALANCE SHEET EVENTS *(Continued)*

As a result of this agreement, all prior years' accrued interest aggregating HK\$51,795,688 was written back in the current year's consolidated profit and loss account, and part of the original loan amount of HK\$12,000,000 will be accounted for as deferred income to offset against future interest element of the 3-year 3% convertible note.

## 38. COMPARATIVE AMOUNTS

As 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 to conform with the current year's presentation.

## 39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 17 April 2002.

## NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of the members of Shenyin Wanguo (H.K.) Limited (the "Company") will be held at the Dragon Room, The Hong Kong Bankers Club at 43rd Floor, Gloucester Tower, The Landmark, 11 Pedder Street, Central, Hong Kong, on Wednesday, 29 May 2002 at 9:00 a.m. for the following purposes:

1. To receive and consider the Audited Consolidated Financial Statements and the Reports of Directors and Auditors for the year ended 31 December 2001;
2. To declare a final dividend;
3. To re-elect Directors and authorise the Board of Directors to fix their remuneration;
4. To re-appoint Auditors and authorise the Board of Directors to fix their remuneration;
5. As special business to consider and, if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

**"THAT:**

- (a) subject to sub-paragraph (c) of this Resolution, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue or otherwise deal with additional shares or securities convertible into shares, or options, warrants or similar rights to subscribe for any shares, and to make or grant offers, agreements and options which would or might require the exercise of such powers, be and is hereby generally and unconditionally approved;
- (b) the approval in sub-paragraph (a) of this Resolution shall authorise the Directors of the Company during the Relevant Period to make or grant offers, agreements and options which would or might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors of the Company pursuant to the approval in sub-paragraph (a) of this Resolution, otherwise than pursuant to:
  - (i) a Rights Issue (as hereinafter defined);
  - (ii) the exercise of rights of subscription or conversions attaching to any warrants issued by the Company or any securities which are convertible into shares;

## NOTICE OF ANNUAL GENERAL MEETING

- (iii) any option scheme or similar arrangements for the time being adopted for the grant or issue to officers and/or employees of the Company and/or its subsidiaries of shares or rights to acquire shares of the Company; or
- (iv) any scrip dividend scheme or similar arrangements providing for the allotment of shares of the Company in lieu of the whole or a part of a dividend on such shares in accordance with the Articles of Association of the Company;

shall not exceed 20 per cent of the aggregate nominal value of the share capital of the Company in issue at the date of the passing of this Resolution, and this approval shall be limited accordingly; and

- (d) for the purpose of this Resolution:

“Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:

- (i) the conclusion of the next Annual General Meeting of the Company;
- (ii) the expiration of the period within which the next Annual General Meeting of the Company is required by the Articles of Association of the Company or any applicable law to be held; and
- (iii) the revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders of the Company in general meeting.

“Rights Issue” means an offer of shares open for a period fixed by the Directors of the Company to holders of shares whose names appear on the register of members on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of or the requirements of any recognised regulatory body or any stock exchange in any territory applicable to the Company).”

## NOTICE OF ANNUAL GENERAL MEETING

6. As special business to consider and, if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

**“THAT:**

- (a) subject to sub-paragraph (b) below, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase shares of HK\$0.50 each in the capital of the Company on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) or any other stock exchange on which the securities of the Company may be listed and is recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange as amended from time to time, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of shares of the Company to be repurchased by the Company pursuant to the approval in sub-paragraph (a) above shall not exceed 10 per cent of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this Resolution, and the said approval shall be limited accordingly; and
- (c) for the purpose of this Resolution:

“Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:

- (i) the conclusion of the next Annual General Meeting of the Company;
- (ii) the expiration of the period within which the next Annual General Meeting of the Company is required by the Articles of Association of the Company or any applicable law to be held; and
- (iii) the revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders of the Company in general meeting.”

## NOTICE OF ANNUAL GENERAL MEETING

7. As special business to consider and, if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

“**THAT** conditional upon the passing of Ordinary Resolutions 5 and 6, the general mandate granted to the Directors of the Company to exercise the power of the Company to allot, issue and deal with shares pursuant to Ordinary Resolution 5 set out in the notice convening this Meeting be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to Ordinary Resolution 6 set out in the notice convening this Meeting, provided that such amount shall not exceed 10 per cent of the aggregate nominal amount of the issued share capital of the Company at the date of passing of this Ordinary Resolution.”

By order of the Board

**Yip Sin Ho**

*Company Secretary*

Hong Kong, 17 April 2002

### *Notes:*

1. The register of members of the Company will be closed from Thursday, 23 May 2002 to Wednesday, 29 May 2002, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Registrars, Tengis Limited, at 4/F Hutchison House, 10 Harcourt Road, Central, Hong Kong for registration not later than 4:00 p.m. on Wednesday, 22 May 2002.
2. A member entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and on a poll, vote on his behalf and such proxy need not be a member of the Company.
3. In order to be valid, a form of proxy together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of the power of attorney or authority, must be deposited at the registered office of the Company not later than 48 hours before the time appointed for holding the meeting (or the adjourned meeting as the case may be).
4. Concerning Ordinary Resolutions 5 to 7, the directors wish to state that they have no immediate plans to issue any new shares of the Company or repurchase any existing shares of the Company.
5. An explanatory statement as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in connection with the proposed repurchase mandate under Ordinary Resolution 6 above will be despatched to members together with 2001 Annual Report of the Company.