

NOTES TO THE CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2001

1. Group reorganisation and basis of preparation of condensed financial statements

The Company is incorporated in Bermuda under the Companies Act 1981 of Bermuda (as amended) as an exempted company with limited liability.

Under a group reorganisation scheme ("the Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's share on The Stock Exchange of Hong Kong Limited (the "SEHK"), the Company became the holding company of the Group in Hong Kong on 15 August 2000.

The principal steps of the Reorganisation, which involved the exchange of shares, were as follows:

- (a) OSK Asia Holdings Limited ("OAH") transferred 1,000,000 shares of the Company at a cash consideration of HK\$100,000 to the then shareholders of OAH pro-rated to their then shareholdings in OAH.
- (b) The Company acquired the entire issued share capital of OAH from the then shareholders of OAH and as consideration for the acquisition, the Company allotted and issued an aggregate of 474,000,000 shares, credited as fully paid, to the then shareholders of OAH on a pro-rata basis.

The Group resulting from the Reorganisation is regarded as a continuing entity as described in the Statement of Standard Accounting Practice ("SSAP") No. 27 "Accounting for Group Reconstructions" issued by the Hong Kong Society of Accountants. Accordingly, the condensed consolidated financial statements of the Group have been prepared on a merger basis.

The Company is an investment holdings company. Its subsidiaries are principally engaged in the provision of financial services including stockbroking, margin financing, futures and options trading, corporate finance, research and asset management.

2. Accounting policies

The condensed consolidated financial statements have been prepared under the historical cost convention as modified for the revaluation of investments in securities.

The condensed consolidated financial statements have been prepared in accordance with the requirements of Appendix 16 of the Rules Governing the Listing of Securities in the SEHK (the "Listing Rules") and SSAP No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants. The accounting policies adopted are consistent with those followed in the Group's annual financial statements for the year ended 31 December 2000 except as described below.

In the current period, the Group has adopted, for the first time, SSAP No. 9 (Revised) "Events after the Balance Sheet Date" issued by the Hong Kong Society of Accountants.

NOTES TO THE CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the six months ended 30 June 2001

2. Accounting policies *(continued)*

Under SSAP 9 (Revised), dividends proposed or declared after the balance sheet date are not recognised as a liability at the balance sheet date, but are disclosed as a separate component of equity on the face of the balance sheet. This change in accounting policy has been applied retrospectively - resulting in an increase in the reserves of HK\$9,000,000 and a decrease in dividend payable of HK\$9,000,000 as at 31 December 2000.

3. Segmental information

Business segments	Turnover		Segment results	
	Six months ended		Six months ended	
	30 June 2001 (unaudited) HK\$'000	30 June 2000 (unaudited) HK\$'000	30 June 2001 (unaudited) HK\$'000	30 June 2000 (unaudited) HK\$'000
Stockbroking	18,265	46,206	(10,858)	11,309
Investments in securities and futures trading	–	–	(365)	27,983
Margin financing	6,730	11,046	3,507	5,735
Treasury - interest income	3,839	4,525	3,839	4,525
Futures broking	4,745	5,101	(2,197)	(2,926)
Underwriting	25	1,272	(970)	368
Asset management and advisory	233	323	(496)	(507)
	33,837	68,473	(7,540)	46,487

As over 90% of the Group's turnover and (loss) profit before taxation are derived from Hong Kong, no analysis of geographical segments has been disclosed in the interim report.

4. Taxation

No provision for Hong Kong Profits Tax has been made in the financial statement as the Group incurred a taxable loss for the period. Hong Kong Profits Tax was calculated at 16% of the estimated assessable profit for the previous period.

5. Dividend

There was no dividend declared for the six months ended 30 June 2001.

A final dividend for the year ended 31 December 2000 of HK\$9 million was paid in the current interim period.

The directors declared an interim dividend of HK\$0.025 per share for the six months ended 30 June 2000 to the shareholders whose names appeared in the Register of Members on 26 October 2000. The dividend payable of HK\$15 million was paid in the six months ended 31 December 2000.

NOTES TO THE CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the six months ended 30 June 2001

6. (Loss) earnings per share

The calculation of the basic loss per share for the six months ended 30 June 2001 is based on the Group's loss attributable to shareholders for the period of approximately HK\$7,540,000 and 600,000,000 shares in issue during the period.

The calculation of basic earnings per share for the six months ended 30 June 2000 was based on the Group's profit attributable to shareholders for the period of approximately HK\$43,717,000 and on the assumption that 475,000,000 shares, being the number of shares in issue immediately after the Reorganisation but before the issue of 125,000,000 new shares issued and allotted in connection with the Company's listing on the SEHK on 28 September 2000, were in issue during the period.

No diluted earnings per share is presented for the six months ended 30 June 2001 as the exercise of the share options of the Company would reduce the net loss for the period.

No diluted earnings per share is presented for the six months ended 30 June 2000 as there were no potential ordinary shares outstanding during that period.

7. Trade receivables

	30 June 2001 (unaudited) HK\$'000	31 December 2000 HK\$'000
Margin clients receivable, net	131,586	146,820
Other clients receivable	9,116	9,395
Amounts due from clearing houses	16,478	20,549
Amounts due from other brokers	2,861	1,682
	<hr/> 160,041 <hr/>	<hr/> 178,446 <hr/>

Margin clients receivable are repayable on demand, bear interest at prevailing market rates and secured by clients' securities listed on the SEHK with a market value of approximately HK\$402 million as at 30 June 2001 (31 December 2000: HK\$474 million). No aged analysis is disclosed for margin clients receivable as, in the opinion of the directors, the aged analysis does not give additional value in view of the nature of business of share margin financing.

The settlement terms of other clients receivable, amounts due from clearing houses and other brokers are one or two days after the trade date. The ages of these balances are within 30 days.

Included in the net clients receivable as at 30 June 2001 are the accounts of the shareholders, directors and their associates of approximately HK\$4,316,000 (31 December 2000: HK\$1,766,000).

NOTES TO THE CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the six months ended 30 June 2001

8. Bank balances and cash

	30 June 2001 <i>(unaudited)</i> HK\$'000	31 December 2000 <i>HK\$'000</i>
Bank balances		
– general accounts	111,524	110,781
– trust and segregated accounts	72,159	66,435
Cash in hand	50	50
	<hr/> 183,733 <hr/>	<hr/> 177,266 <hr/>

9. Trade payables

	30 June 2001 <i>(unaudited)</i> HK\$'000	31 December 2000 <i>HK\$'000</i>
Margin clients payable	49,652	62,636
Other clients payable	58,297	47,595
Amount due to a clearing house	961	–
	<hr/> 108,910 <hr/>	<hr/> 110,231 <hr/>

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

The settlement terms of other clients payable and amount due to a clearing house are two days after the trade date. The ages of these balances are within 30 days.

Included in the above clients payable as at 30 June 2001 are the accounts of the shareholders, directors and their associates of approximately HK\$6,687,000 (31 December 2000: HK\$5,680,000).

10. Reserves

The movement of the reserves for the current period consists of the net loss for the period of approximately HK\$7,540,000 and prior period adjustment in respect of dividends of HK\$9,000,000 (see note 2).

11. Commitments

The Group has underwriting commitments of approximately HK\$3.2 million (31 December 2000: HK\$Nil) as at 30 June 2001.

NOTES TO THE CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

For the six months ended 30 June 2001

12. Related party transactions

Particulars of significant transactions between the Group and fellow subsidiaries in Malaysia during the period were summarised as below:

	Six months ended	
	30 June 2001 (unaudited) HK\$'000	30 June 2000 <i>(unaudited)</i> <i>HK\$'000</i>
Handling fee received	–	519
Commission paid	15	228

In the ordinary course of business, the clients of OSK Asia Securities Limited and OSK Asia Futures Limited place orders with the Group to trade in listed securities and futures contracts in Malaysia. Fellow subsidiaries in Malaysia execute the trades and charge the Group brokerage and futures broking commission at pre-agreed rates based on the minimum commission rates required in Malaysia. In return, the Group receives handling fees for introducing trade orders to a fellow subsidiary. The handling fee is dependent on the size of order and the volume of transaction generated, and is pre-agreed between the two parties. There was no handling fee received for the six months ended 30 June 2001.

Furthermore, the Group entered into the following transactions with certain shareholders of the Company and certain directors of the Group during the period. The commission, fee and the interest are charged at market rates. The transactions are related to futures and securities trading and margin accounts:

	Six months ended	
	30 June 2001 (unaudited) HK\$'000	30 June 2000 <i>(unaudited)</i> <i>HK\$'000</i>
Commission, fee and interest income		
Shareholders	142	241
Directors	45	339
Interest paid		
Shareholders	2	53
Directors	74	122

In the opinion of the directors, the above transactions are carried out in the Group's ordinary course of business and on normal commercial terms.