

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

These unaudited interim condensed consolidated financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants (“HKSA”) and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The accounting policies and basis of presentation used in the preparation of these interim financial statements are the same as those used in the Group’s audited financial statements for the year ended 31 March 2001, except the following new/revised SSAPs have been adopted for the first time in the preparation of the current period’s condensed consolidated financial statements:

- SSAP 9 (revised) Events after the Balance Sheet Date
- SSAP 14 (revised) Leases
- 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

A summary of their major effects is as follows:

- (a) SSAP 9 (revised) prescribes the accounting treatment and disclosures for events occurring after the balance sheet date. Following the adoption of SSAP 9 (revised), whereby dividends proposed after the balance sheet date should not be recognised as a liability at the balance sheet date, the final dividend proposed for the year ended 31 March 2001 of HK\$9,766,000, classified as a current liability at 31 March 2001, has been reclassified and shown under the shareholders’ equity. There is no impact on the profit and loss account because of this change.
- (b) SSAP 14 (revised) prescribes the accounting treatment and disclosures for leases and hire purchase contracts. This SSAP has been applied prospectively. This has had no major impact on these financial statements, however, the disclosures for commitments under non-cancellable operating leases have been changed. In prior years, operating lease commitments were disclosed as payments committed to be made during the next year, analysed between those in which the commitment would expire within that year; in the second to fifth years, inclusive; and over five years. In the current period, the disclosure has been changed to the total of future minimum lease payments under non-cancellable operating leases analysed into those not later than one year, later than one year and not later than five years; and later than five years. Disclosures as required are set out in note 13 to these financial statements.

- (c) SSAP 28 prescribes the accounting treatment and disclosures for provisions, contingent liabilities and contingent assets. This has had no major impact on these financial statements.
- (d) SSAP 29 prescribes the accounting treatment and disclosures of intangible assets. This has had no major impact on these financial statements.
- (e) SSAP 30 prescribes the accounting treatment and disclosures for business combinations.

In prior years, goodwill arising on consolidation of subsidiaries representing the excess of the cost of investments in subsidiaries over the appropriate share of the fair value of the net tangible assets at the date of acquisition, was taken to reserves in the year in which it arose. On disposal of a subsidiary, the attributable amount of goodwill is included in calculating the profit or loss on disposal.

With effect from 1 April 2001, with the introduction of SSAP 30 "Business Combinations", the Group adopted an accounting policy to recognise goodwill as an asset which is amortised on a straight-line basis over its estimated useful life. On disposal of a subsidiary, any attributable amount of purchased goodwill not previously amortised through the profit and loss account is included in the calculation of the profit or loss on disposal.

The Group has taken advantage of the transitional provisions in SSAP 30 and the goodwill that arose from acquisitions prior to 1 April 2001, which has been previously eliminated against reserves, has not been retrospectively restated under the new accounting policy. Therefore, goodwill arising on acquisitions prior to 1 April 2001 is held in reserves and will be charged to the profit and loss account at the time of disposal of the subsidiaries, or at such time as the goodwill is determined to be impaired.

- (f) SSAP 31 requires enterprises to consider whether assets are carried in excess of their recoverable amounts and prescribes the accounting treatment for any resulting impairment losses. This also applies to goodwill eliminated against reserves in accordance with the provisions of Interpretation 13 issued by the HKSA. As the Group had not previously adopted a policy of recognising impairment losses in respect of goodwill written off against reserves, implementation of SSAP 31 is treated as a change in accounting policy in accordance with SSAP 2 and is applied retrospectively in accordance with the transitional provisions of SSAP 30 and the comparatives presented have been restated to conform to the change of accounting policy.

The Group has performed an assessment of the fair value of its assets, including the related goodwill that had previously been charged to reserves. As a result, the goodwill arising from the acquisition of a subsidiary in 1999 was determined to have been impaired as at 31 March 2001. The effect of this change in the accounting policy is to decrease the retained profits and increase the capital reserve as at 1 April 2001 by HK\$2,730,000. There is no attributable tax effect in respect of the prior year adjustments.

- (g) SSAP 32 prescribes the accounting treatment and disclosures in the preparation and presentation of consolidated financial statements. This has had no major impact on these financial statements.

2. SEGMENT INFORMATION

The Group is principally engaged in securities and futures contracts broking and trading, the provision of margin financing, the provision of corporate advisory, placing and underwriting services, fund management, the provision of nominee and custodian services, and the provision of brokerage and agency services for savings plan. The Group also commenced its gold bullion trading activity during the current period.

The results of operations by principal activity are summarised as follows:

	Turnover		Contribution to profit/(loss) from operating activities	
	For the six months ended 30 September		For the six months ended 30 September	
	2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
Commission and brokerage income				
from securities broking	55,040	74,876	(18,906)	14,253
Commission and brokerage income				
from futures and options contracts broking	8,110	4,436	(359)	(813)
Margin and other financing interest income	69,549	90,116	(16,266)	18,514
Corporate advisory fees	7,064	19,474	(3,649)	6,763
Placing, underwriting and sub-underwriting commission income	9,800	23,421	1,990	9,072
Fund management fees	1	29	(2,006)	(4)
Nominee and custodian services income	1,921	1,471	1,505	2,023
Securities trading	(8,622)	(529)	(7,719)	(545)
Futures contracts trading	(471)	(74)	(474)	(74)
Gold bullion trading	3	-	(350)	-
Commission and brokerage income from savings plan and insurance broking	3,504	20,491	(2,190)	7,063
Gain on disposal of subsidiaries	-	-	-	18,132
	<u>145,899</u>	<u>233,711</u>	<u>(48,424)</u>	<u>74,384</u>

The Group's turnover and contribution to profit/(loss) from operating activities were principally derived from operations in Hong Kong.

The Group's operations outside Hong Kong contributed less than 10% of turnover and less than 10% of contribution to profit/(loss) from operating activities, and accordingly an analysis of such activities is not shown.

3. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	For the six months ended 30 September	
	2001	2000
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Depreciation	8,701	8,604
Amortisation of intangible assets	406	184
Loss on trading of securities	11,225	5,849
Loss on trading of futures contracts	471	74
Provision for doubtful debts	30,500	-
Interest expense for securities broking and margin financing operations:		
On bank loans and overdrafts	15,755	11,421
On other loans wholly repayable within five years	1,346	25,829
	<u>1,346</u>	<u>25,829</u>

4. TAX

	For the six months ended 30 September	
	2001	2000
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Group:		
Provision for tax in respect of profit for the period:		
Hong Kong	-	11,320
Mainland China	34	80
Overseas	113	110
Overprovision in prior year	(3,032)	-
	<u>(2,885)</u>	<u>11,510</u>
Share of tax attributable to an associate:		
Overseas	-	113
	<u>-</u>	<u>113</u>
Tax charge/(credit) for the period	<u>(2,885)</u>	<u>11,623</u>

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

5. DIVIDEND

The directors declared an interim dividend of HK1 cent per ordinary share (2000: HK4 cents) for the six months ended 30 September 2001, to shareholders whose names appear on the register of members of the Company on Friday, 11 January 2002. The interim dividend will be paid on Friday, 18 January 2002.

6. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the unaudited net loss attributable to shareholders for the period of HK\$45,539,000 (2000: net profit attributable to shareholders of HK\$62,285,000), and the weighted average number of 488,243,723 (2000: 369,464,887) ordinary shares in issue during the period.

Diluted loss per share for the period ended 30 September 2001 has not been shown as the warrants and share options outstanding during the period has an anti-dilutive effect on the basic loss per share for the period.

The calculation of diluted earnings per share for the period ended 30 September 2000 was based on the unaudited net profit attributable to shareholders for that period of HK\$62,285,000. The weighted average number of ordinary shares used in the calculation was 369,464,887 ordinary shares in issue during that period, as used in the basic earnings per share calculation, and the weighted average of 6,420,194 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all warrants and share options outstanding during that period.

7. INVESTMENTS

Long term investments

	30 September 2001 (Unaudited) HK\$'000	31 March 2001 (Audited) HK\$'000
Listed equity investment in		
Hong Kong, at market value	25,760	34,213
Unlisted equity investment in		
Hong Kong, at fair value	4,597	-
	30,357	34,213

At the balance sheet date, the listed investment was pledged to banks to secure certain banking facilities granted to the Company's subsidiaries.

Short term investments

	30 September 2001 (Unaudited) <i>HK\$'000</i>	31 March 2001 (Audited) <i>HK\$'000</i>
Listed equity investments, at market value:		
Hong Kong	21,263	51,097
Elsewhere	333	301
U.S. Government bond, at fair value	1,528	1,516
	<u>23,124</u>	<u>52,914</u>

8. ADVANCES TO CUSTOMERS

The balance includes an aggregate amount of HK\$1,160,061,000 representing the loans to margin clients which are secured by the underlying pledged securities, repayable on demand and bear interest at commercial rates. No ageing analysis is disclosed as, in the opinion of the directors, an ageing analysis is not relevant in view of the nature of the business of securities margin financing.

The remaining balance represents the loans receivable arising from the ordinary course of other financing business which are unsecured, bear interest at 3% over the prime rate announced by The Hongkong and Shanghai Banking Corporation Limited per annum and are repayable on demand.

9. ACCOUNTS RECEIVABLE

	30 September 2001 (Unaudited) <i>HK\$'000</i>	31 March 2001 (Audited) <i>HK\$'000</i>
Accounts receivable arising from the ordinary course of business of dealing in:		
Securities and equity options transactions:		
Clearing house, brokers and dealers	30,351	6,586
Cash clients	10,987	27,093
Futures and options contracts transactions:		
Clearing house, brokers and dealers	55,630	43,677
Accounts receivable arising from the ordinary course of business of the provision of corporate advisory, placing and underwriting services and insurance broking	<u>3,736</u>	<u>7,822</u>
	<u>100,704</u>	<u>85,178</u>

The settlement terms of accounts receivable arising from the ordinary course of business of dealing in securities and equity options transactions are two days after the trade date, and those of accounts receivable arising from the ordinary course of business of dealing in futures and options contracts transactions are one day after the trade date. The above balances are all aged within 30 days.

The ageing analysis of accounts receivable arising from the ordinary course of business of the provision of corporate advisory, placing and underwriting services and insurance broking is as follows:

	30 September 2001 (Unaudited) <i>HK\$'000</i>	31 March 2001 (Audited) <i>HK\$'000</i>
Within 3 months	2,681	5,122
Between 4 to 6 months	-	1,950
Between 7 to 12 months	251	600
Over 1 year	804	150
	<u>3,736</u>	<u>7,822</u>

The Group maintains a defined credit policy which is regularly reviewed by the Credit Committee.

10. ACCOUNTS PAYABLE

	30 September 2001 (Unaudited) <i>HK\$'000</i>	31 March 2001 (Audited) <i>HK\$'000</i>
Accounts payable arising from the ordinary course of business of dealing in:		
Securities and equity options transactions:		
Clearing house, brokers and dealers	16	12,586
Cash clients	364,729	280,510
Margin clients	164,315	178,787
Futures and options contracts transactions:		
Clients	136,761	92,109
Accounts payable arising from the ordinary course of business of the provision of placing and underwriting services and insurance broking	<u>-</u>	<u>1,726</u>
	<u>665,821</u>	<u>565,718</u>

The settlement terms of accounts payable arising from the ordinary course of business of dealing in securities and equity options transactions in respect of clearing house, brokers and dealers and cash clients are two days after the trade date.

Included in accounts payable to cash clients arising from the ordinary course of business of dealing in securities and equity options transactions is an amount of approximately HK\$322,055,000 (31 March 2001: HK\$ 263,674,000) representing these clients' undrawn monies/excess deposits placed with the Group. The balances are repayable on demand. No ageing analysis is disclosed as, in the opinion of the directors, an ageing analysis is not relevant in view of the nature of the business of dealing in securities and equity options.

Accounts payable to margin clients arising from the ordinary course of business of dealing in securities and equity options transactions are repayable on demand. No ageing analysis is disclosed as, in the opinion of the directors, an ageing analysis is not relevant in view of the nature of the business of dealing in securities and equity options.

Accounts payable to clients arising from the ordinary course of business of dealing in futures and options contracts transactions are margin deposits received from clients for their trading of futures and options contracts. The excesses of the outstanding amounts over the required margin deposit stipulated are repayable to clients on demand. No ageing analysis is disclosed as, in the opinion of the directors, an ageing analysis is not relevant in view of the nature of the business of dealing in futures and options contracts.

The accounts payable arising from the ordinary course of business of the provision of placing and underwriting services and insurance broking as at 31 March 2001 was within three months.

11. SHARE CAPITAL

	30 September 2001 (Unaudited) HK\$'000	31 March 2001 (Audited) HK\$'000
Authorised:		
600,000,000 ordinary shares of HK\$0.10 each	<u>60,000</u>	<u>60,000</u>
Issued and fully paid:		
488,015,699 (31 March 2001: 488,409,699) ordinary shares of HK\$0.10 each	<u>48,802</u>	<u>48,841</u>

A summary of the transactions during the period with reference to the above movements of the Company's ordinary share capital is as follows:

	Number of ordinary shares of HK\$0.10 each	Amount HK\$'000
As at 1 April 2001	488,409,699	48,841
Repurchase and cancellation of shares	<u>(394,000)</u>	<u>(39)</u>
As at 30 September 2001	<u>488,015,699</u>	<u>48,802</u>

12. RESERVES

	Share premium account (Unaudited) HK\$'000	Capital redemption reserve (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Long term investment revaluation reserve (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 April 2001								
As previously stated (Audited)	421,600	489	4,634	42,771	(42,262)	79	466,430	893,741
Prior year adjustment (Note)	-	-	-	2,730	-	-	(2,730)	-
As restated	421,600	489	4,634	45,501	(42,262)	79	463,700	893,741
Premium on repurchase and cancellation of shares	(390)	-	-	-	-	-	-	(390)
Transfer to capital redemption reserve of the nominal value of shares repurchased	-	39	(39)	-	-	-	-	-
Movement in fair value of a long term investment	-	-	-	-	(8,453)	-	-	(8,453)
Exchange adjustment on translation of overseas subsidiaries	-	-	-	-	-	(157)	-	(157)
Net loss for the period	-	-	-	-	-	-	(45,539)	(45,539)
Dividends	-	-	-	-	-	-	(4,866)	(4,866)
At 30 September 2001	<u>421,210</u>	<u>528</u>	<u>4,595</u>	<u>45,501</u>	<u>(50,715)</u>	<u>(78)</u>	<u>(413,295)</u>	<u>834,336</u>

Note: The prior year adjustment represents loss arising from impaired goodwill, the accounting treatment of which is further explained in note 1(f).

13. COMMITMENTS

As at 30 September 2001, the Group had outstanding commitments under non-cancellable operating leases in respect of land and buildings which fall due:

	(Unaudited) HK\$'000
Not later than one year	21,028
Later than one year but not later than five years	35,454
	<u>56,482</u>

As at 31 March 2001, the Group had annual commitments payable in the following year under non-cancellable operating leases in respect of land and buildings expiring:

	(Audited) HK\$'000
Within one year	9,349
In the second to fifth years, inclusive	11,752
	<u>21,101</u>

14. RELATED PARTY TRANSACTIONS

- (a) During the period, the Company leased from New World Tower Company Limited, a company controlled by Chow Tai Fook Enterprises Limited ("CTF"), which is itself a company controlled by the family of Mr. Cheng Kar Shun, certain office premises at New World Tower, 16-18 Queen's Road Central, Hong Kong, at a monthly rental, including management and air-conditioning fees, of approximately HK\$1,703,500 for various terms between one to four years. The Group paid total rental of HK\$10,221,000 (2000: HK\$7,164,000) for the period. The rentals paid were calculated by reference to open market rentals as confirmed to the Group by an independent professional valuer.
- (b) During the period, the Group provided corporate advisory services to the companies which are controlled by the family of Mr. Cheng Kar Shun and to the companies of which Mr. Lo Lin Shing, Simon, a director of the Company, is also a director of the companies. The corporate advisory fee income from those transactions amounted to HK\$1,875,000 (2000: HK\$1,400,000) for the period and were charged in accordance with the terms similar to those offered to unrelated customers.

- (c) On 17 April 2001, the Company entered into a renovation agreement with Kentfull Contracting Limited, a 65% owned subsidiary of New World Services Limited, a company incorporated in the Cayman Islands and controlled by the family of Mr. Cheng Kar Shun, for the renovation of certain of the Group's office premises situated at New World Tower, 16-18 Queen's Road Central, Hong Kong, for a consideration of HK\$6,500,000. The details of this arrangement were disclosed in an announcement dated 17 April 2001 made by the Company.
- (d) The Company and CTF have provided guarantees in respect of a bank loan granted to a Company's wholly-owned subsidiary. A guarantee fee is charged by CTF and is calculated at 2% per annum on the average daily amount outstanding under such facility during a financial year. The outstanding balance of this bank loan at 30 September 2001 amounted to HK\$210,000,000 and the guarantee fee paid to CTF for the period amounted to HK\$3,337,000.
- (e) During the period, the Group engaged New World CyberBase Solutions (HK) Limited ("NWCBS") as a contractor to undertake the construction works of a data centre and a network system for the leased premises at New World Tower. Mr. Lo Lin Shing, Simon, a director of the Company, is also a director of NWCBS. As at 30 September 2001, the deposits paid by the Group to NWCBS amounted to HK\$7,800,000.
- (f) During the period, the Group was advanced a loan of HK\$70,000,000 from New World Finance Company Limited ("NWF"), a non-wholly-owned subsidiary of NWD. At 30 September 2001, the balance of HK\$70,000,000 is unsecured, bears interest at overnight HIBOR per annum and has no fixed terms of repayment. The interest paid to NWF for the period amounted to HK\$89,000.

ADDITIONAL INFORMATION

CLOSURE OF REGISTERS OF MEMBERS AND WARRANTHOLDERS

The registers of members and warrantholders of the Company will be closed from Monday, 7 January 2002 to Friday, 11 January 2002, both dates inclusive, during which period no transfer of shares and/or warrants will be registered. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates and all subscription forms in relation to the exercise of warrants issued by the Company to subscribe for shares accompanied by the appropriate subscription monies and the relevant warrant certificates must be lodged with the Company's Branch Share Registrars in Hong Kong and Warrant Registrars, Central Registration Hong Kong Limited, at shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration, not later than 4:00 p.m. on Friday, 4 January 2002.