

NOTES TO CONDENSED INTERIM ACCOUNTS

1 Basis of preparation and accounting policies

The unaudited condensed consolidated accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (SSAP) 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants ("HKSA"). These condensed interim accounts should be read in conjunction with the 2001 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31st December 2001 except that the Group has changed certain of its accounting policies following its adoption of the following Statements of Standard Accounting Practice (SSAPs) issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1st January 2002:

SSAP 1 (revised)	: Presentation of financial statements
SSAP 11 (revised)	: Foreign currency translation
SSAP 15 (revised)	: Cash flow statements
SSAP 25 (revised)	: Interim financial reporting
SSAP 34	: Employee benefits

The changes to the Group's accounting policies and the effect of adopting these new policies is set out below:

(a) *SSAP 11 (revised): Foreign currency translation*

The balance sheet of subsidiaries and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

In prior periods, the profit and loss of foreign enterprises was translated at closing rate. This is a change in accounting policy, however, the translation of the profit and loss of foreign enterprises in prior periods has not been restated as the effect of this change is not material to the current and prior periods.

(b) *SSAP 34: Employee benefits*

(1) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. Provision will be made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(2) Profit sharing and bonus plans

Provisions for profit sharing and bonus plans due wholly within twelve months after balance sheet date are recognised when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

1 Basis of preparation and accounting policies (Continued)*(b) SSAP 34: Employee benefits (continued)***(3) Equity compensation benefits**

Options granted to employees and directors over the Company's shares are recognised in the balance sheet at the time when the options are exercised and the allotments of shares is approved. Share capital is credited at par for each share issued upon such approval, with share premium credited at the excess of net proceeds received over the total share capital credited.

(4) Pension obligations

The Group contributes to the mandatory provident fund, a defined contribution retirement scheme, which is available to all employees. Contributions to the scheme by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to the profit and loss account represents contributions payable by the Group to the fund.

The assets of the scheme are held separately from those of the Group in an independently administered fund.

(c) Netted off of trust accounts

Trust accounts maintained by the subsidiaries of the Company to hold clients' monies are no longer recognized as an asset in the accounts. Accordingly, the amounts recognized as "Bank balances and cash – segregated trust accounts" and the clients' monies deposited in two designated accounts maintained with the Hong Kong Futures Clearing Corporation Limited and the SEHK Options Clearing House Limited previously classified under trade and other receivables on the balance sheet, were taken off the balance sheet and netted against the corresponding amounts classified under trade and other payables. The comparative figures presented have been restated to conform with the current period's presentation.

2 Turnover, other revenues and segment information

The Company is an investment holding company. The Group is principally engaged in the provision of leveraged foreign exchange trading services, securities broking, commodities and futures broking, provision of corporate financial advisory services, fund management, and insurance broking. Revenues recognised during the period are as follows:

	Six months ended 30th June	
	2002	2001
	HK\$'000	HK\$'000
Turnover		
Fees and commission	34,146	9,652
Net revenue from foreign currency option trading	3,951	–
Net premium income from		
– foreign currency option broking	1,390	247
– insurance brokerage	178	–
Swap interest and foreign exchange trading revenue	17,732	20,577
Interest income	3,681	6,362
Consultancy fee income	273	–
Underwriting commission	6,637	–
Management fee and subscription fee income	436	–
	68,424	36,838
Other revenues		
Dividend income from listed securities	27	–
Other income including exchange gains	1,164	680
	1,191	680
Total revenues	69,615	37,518

Primary reporting format – Business Segments

The Group is organized into six main business segments:

1. Leveraged foreign exchange trading/broking – providing leveraged forex trading services on major currencies
2. Securities broking – providing broking services on listed securities in Hong Kong and selected overseas markets
3. Commodities and futures broking – providing broking services on commodities and futures contracts traded in Hong Kong and selected overseas markets
4. Corporate financial advisory – providing corporate financial advisory services mainly to companies listed and planning for listing in Hong Kong
5. Asset management – managing private and publicly traded funds
6. Insurance broking – acting as agent for sale of saving plans, unit trust, general and life insurance

There are no significant transactions between the business segments. Unallocated costs represent corporate expenses.

2 Turnover, other revenues and segment information (Continued)*Secondary reporting format – Geographical Segments*

Based on the geographical location of the clients, the Group's business could be divided into three main geographical areas:

1. Hong Kong – mainly consists of retail clients
2. Japan – mainly consists of corporate clients
3. Other countries – principally in Philippines and mainland China for the six months ended 30th June 2002 – each contributed less than 10% of the turnover and profit of the Group

There are no significant transactions between the geographical segments.

Primary reporting format – Business Segments

	Six months ended 30th June 2002							Total HK\$'000
	Leveraged foreign exchange trading/ broking HK\$'000	Securities broking HK\$'000	Commodities and futures broking HK\$'000	Corporate financial advisory HK\$'000	Asset management HK\$'000	Insurance broking HK\$'000	Unallocated HK\$'000	
Turnover	35,954	12,383	7,497	6,635	438	5,517	–	68,424
Segment results	1,513	(7,374)	637	1,431	(420)	103	(1,636)	(5,746)
Operating loss								(5,746)
Finance costs								(515)
Share of profits of an associated company								2,597
Loss before taxation								(3,664)
Taxation								(324)
Loss attributable to shareholders								(3,988)

For the six months ended 30th June 2001, no segmental analysis on revenues and contributions by operating activity is provided as the Group was only engaged in the activity of leveraged foreign exchange trading/broking.

2 Turnover, other revenues and segment information (Continued)*Secondary reporting format – Geographical Segments*

	Turnover	
	Six months ended 30th June	
	2002	2001
	HK\$'000	HK\$'000
Hong Kong	57,320	25,430
Japan	5,011	5,271
Other countries (<i>Note (a)</i>)	6,093	6,137
	68,424	36,838

(a) The balance include HK\$999,213 bank interest income derived outside Hong Kong (2001: HK\$4,853,719).

3 Operating (loss)/profit

Operating (loss)/profit is stated after crediting and charging the following:

	Six months ended 30th June	
	2002	2001
	HK\$'000	HK\$'000
Crediting		
Write back of doubtful debts provision	118	–
Charging		
Amortisation of trading rights	408	–
Amortisation of goodwill	1,619	–
Auditors' remuneration	914	505
Bad debts written off	342	–
Depreciation of fixed assets	1,880	580
Interest paid to clients on margin deposits	36	241
Legal & professional fee	1,369	282
Rent and rates	5,200	1,608
Staff salaries	17,616	7,916
Unrealised loss on investment in securities held for trading purposes	–	2
Commission and other rebates	31,790	15,377

4 Staff costs

	Six months ended 30th June	
	2002	2001
	HK\$'000	HK\$'000
Wages and salaries	17,079	7,621
Mandatory provident fund – defined contribution plans	537	295
	<u>17,616</u>	<u>7,916</u>

5 Taxation

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profit for the six months ended 30th June 2002.

The amount of taxation charged to the consolidated income statement represents:

	Six months ended 30th June	
	2002	2001
	HK\$'000	HK\$'000
Hong Kong profits tax	323	100
Share of taxation attributable to an associated company	1	–
	<u>324</u>	<u>100</u>

There is no material unprovided deferred taxation for the period (2001: Nil).

6 Dividends

	Six months ended 30th June	
	2002	2001
	HK\$'000	HK\$'000
Final dividend of HK\$0.02 per ordinary share (2001: HK\$0.025)	7,823	7,533

On 18th April 2002, the directors proposed a final dividend of HK\$0.02 per ordinary share on 400,922,000 shares for the year ended 31st December 2001. The amount actually paid of HK\$0.02 per ordinary share on 391,130,000 shares, totalling HK\$7,822,600 was paid on 12th June 2002.

7 (Loss)/earnings per share

The calculation of basic and diluted (loss)/earnings per share are based on the Group's loss attributable to shareholders of HK\$3,987,816 (2001: a profit of HK\$5,020,319).

The basic (loss)/earnings per share is based on the weighted average of 398,798,066 (2001: 300,005,525) ordinary shares in issue during the six months ended 30th June 2002. No diluted loss per share is shown for the six months ended 30th June 2002 as the dilution effects arising from the potential ordinary shares deemed to be issued if all outstanding share options had been exercised would be anti-dilutive. The diluted earnings per share for the six months ended 30th June 2001 is based on 300,005,525 ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average of 2,731,609 ordinary shares deemed to be issued at exercisable prices of HK\$0.66 and HK\$0.6128 per share respectively if all outstanding options had been exercised.

8 Capital expenditure

	Stock Exchange trading rights HK\$'000	Futures Exchange trading right HK\$'000	Goodwill HK\$'000	Total intangible assets HK\$'000	Fixed assets HK\$'000
Six months ended					
30th June 2002					
Opening net book amount	5,655	1,262	6,475	13,392	11,243
Additions	–	–	–	–	1,119
Amortisation charge/depreciation	(333)	(75)	(1,619)	(2,027)	(1,880)
Disposals	–	–	–	–	(1)
Closing net book amount	5,322	1,187	4,856	11,365	10,481

9 Trade and other receivables

	Unaudited 30th June 2002 HK\$'000	Audited 31st December 2001 HK\$'000
Trade receivables from clients	25,836	23,278
Less: provision for doubtful debts	(6,694)	(7,440)
Margin finance loans	43,597	42,086
Less: provision for doubtful debts	(5,111)	(4,483)
Margin and other trade related deposits with brokers and recognised counterparties	61,063	70,076
Trade receivables from clearing houses	4,047	10,545
Total trade receivables	122,738	134,062
Rental and utilities deposits	5,022	6,029
Prepayments and other receivables	4,283	2,292
Total trade and other receivables	132,043	142,383

The Group maintains designated accounts with The SEHK Options Clearing House Limited ("SEOCH") and The Hong Kong Futures Exchange Clearing Corporation Limited ("HKFECC") as a result of its normal business transactions. At 30th June 2002, the designated accounts with SEOCH and HKFECC not otherwise dealt with in these accounts amounted to HK\$56,295 and HK\$10,171,251 respectively. To conform with the current period's presentation, the comparative figures presented have been restated. At 31st December 2001, the designated account maintained with HKFECC not otherwise dealt with in these accounts amounted to HK\$10,135,122.

9 Trade and other receivables (Continued)

As at 30th June 2002, the aging analysis of the trade receivables was as follows:

	Unaudited	Audited
	30th June	31st December
	2002	2001
	HK\$'000	HK\$'000
Current	121,664	133,506
30 – 60 days	159	481
Over 60 days	12,720	11,998
	134,543	145,985
Less: Provision for doubtful debt	(11,805)	(11,923)
	122,738	134,062

- (a) As at 31st December 2001, included in trade receivable aged 30 days and over were HK\$6.1 million which was secured by cash deposits placed in favour of the Group in separate escrow accounts established pursuant to the sale and purchase agreement dated 8th October 2001 (the "Agreement") for the acquisition of the share capital of HT (BVI) Limited. During the period ended 30th June 2002, the escrow amount has been withdrawn in accordance with the Agreement.

10 Bank balances and cash

	Unaudited	Audited
	30th June	31st December
	2002	2001
	HK\$'000	HK\$'000
Cash in hand	246	248
Bank balances	163,197	154,450
	163,443	154,698
(a) By maturity		
Bank balances		
– Current and savings account	133,077	117,221
– Fixed deposits (maturing within three months)	30,120	37,229
	163,197	154,450

- (b) As at 30th June 2002, bank balances amounted to HK\$10,440,958 had been pledged to a bank for banking facilities to the extent of HK\$26 million. The aggregate banking facilities of HK\$180 million available to a subsidiary of the Group were also guaranteed by the Company to the extent of HK\$168 million (Note 13(b)). As at 30th June 2002, HK\$18,146,000 of the banking facilities has been utilised (At 31st December 2001: HK\$23,826,000).

The subsidiaries of the Group maintained segregated trust accounts with authorised institutions as a result of its normal business transactions. At 30th June 2002, trust account not otherwise dealt with in these accounts amounted to HK\$94,949,916 (At 31st December 2001: HK\$101,772,362). To conform with the current period's presentation, the comparative figures presented have been restated.

11 Trade and other payables

	Unaudited	Audited
	30th June	31st December
	2002	2001
	HK\$'000	HK\$'000
Margin and other deposits payable to clients	35,540	18,912
Trade payable to brokers	955	144
Total trade payables	36,495	19,056
Accruals and other payables	17,689	13,476
	54,184	32,532

The trade payables are aged within 30 days.

12 Share capital

	Authorised	
	Ordinary shares of HK\$0.10 each	
	No. of shares	Nominal value
	'000	HK\$'000
At 1st January 2002, 2001 and 30th June 2002	1,000,000	100,000

	Issued and fully paid	
	Ordinary shares of HK\$0.10 each	
	No. of shares	Nominal value
	'000	HK\$'000
At 1st January 2002	400,922	40,092
Repurchase of shares (<i>Note</i>)	(9,792)	(979)
At 30th June 2002	391,130	39,113

	Issued and fully paid	
	Ordinary shares of HK\$0.10 each	
	No. of shares	Nominal value
	'000	HK\$'000
At 1st January 2001	299,000	29,900
Share issued under Share option scheme	2,350	235
At 30th June 2001	301,350	30,135
Shares issued	97,122	9,712
Shares issued under Share option scheme	2,450	245
At 31st December 2001	400,922	40,092

Note: During the period, 9,792,000 ordinary shares of HK\$0.10 each were repurchased and cancelled.

13 Contingent liabilities

- (a) The Company received a writ of summons on 28th July 2000, filed by a Company named Hantec Investment Limited which is unrelated to the Group. The plaintiff sought for injunction to restrain the Company from using the plaintiff's alleged trade name and damages.

The directors have commenced a defence action and will continue with its defence vigorously. It is expected that hearing by the Court will be commenced soon. The directors believe it is too early in the legal proceedings to be able to make an assessment to the likely outcome. However, potential damages, losses, fees, expenses, proceedings and claims which have been and may be incurred by the Group as a result of the action have been covered by a joint and several indemnity, given by the ultimate controlling shareholders and accordingly no provision has been made by the Group as at 30th June 2002.

- (b) As at 30th June 2002, the Company had issued corporate guarantee to certain banks for credit facilities up to an amount of HK\$168 million granted to a subsidiary which engages in securities broking. In addition, the Company had issued corporate guarantees to certain financial institutions for foreign exchange trading facilities granted to a subsidiary which engages in leveraged foreign exchange trading. The guarantee amounts vary and are subject to the volume of contracts traded with the financial institutions.

14 Lease commitment

At 30th June 2002, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Unaudited	Audited
	30th June	31st December
	2002	2001
	HK\$'000	HK\$'000
Land and buildings		
Not later than one year	8,555	9,212
Later than one year and not later than five years	7,744	10,510
	16,299	19,722

15 Assets, liabilities and commitments in foreign currencies

	Unaudited	Audited
	30th June	31st December
	2002	2001
	HK\$'000	HK\$'000
Total assets in foreign currencies included in the balance sheet	185,558	227,483
Total liabilities in foreign currencies included in the balance sheet	42,832	23,694
Total commitments to purchase foreign currencies under leveraged foreign exchange trading contracts <i>(Note (a))</i>	1,593,925	691,980
Total commitments to sell foreign currencies under leveraged foreign exchange trading contracts <i>(Note (a))</i>	1,428,171	689,540
Total commitments to purchase foreign currencies under option contracts	4,484,064	1,082,865
Total commitments to sell foreign currencies under option contracts	4,481,818	1,077,846

- (a) Total commitments to purchase or sell foreign currencies under leveraged foreign exchange trading contracts consist of a basket of currencies which cannot be offset against each other. From the Group's risk management perspective, individual positions in each currency (short or long) are monitored for exchange risk.

16 Related party transactions

The following is a summary of significant related party transactions, which were carried out in the normal course of the Group's business.

	Unaudited	
	Six months ended 30th June	
	2002	2001
	HK\$'000	HK\$'000
Office premises occupancy expenses (<i>Note (a)</i>)	–	(563)

- (a) During the six months ended 30th June 2001, a total of HK\$563,276 was paid to Chinacorp Nominees Limited, which was formerly not included in the Group, as licence fee for the occupancy of the dealing room and the branches pursuant to a Licence Services Agreement. The licence fee was calculated based on the actual space occupied and the directors considered that the terms of the Licence Services Agreement and the rental charged are at normal commercial terms. On 30th November 2001, the Group has acquired the entire issued share capital of Chinacorp Nominees Limited and the Group ceased to pay such expenditures.
- (b) The associated company which engages in leveraged foreign exchange broking and trading transactions in Japan conducts leveraged foreign exchange transactions through the Group. The volume of transactions conducted by the associated company represents approximately 7.8% of the total transaction volume entered into by the Group with its customers during the period (2001: Nil). As of 30th June 2002, the unrealised profit recognised by the Group, in connection with the outstanding foreign exchange positions conducted by the associated company amounted to HK\$1,034,000 (2001: Nil).

The transactions priced were based on a spread over the relevant market rates at the time of each transaction, and were under the comparable terms as those available to other counterparties and customers of the Group. In the opinion of the directors, the transactions are conducted at normal commercial term.