

NOTES TO THE CONDENSED 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 accounts should be read in conjunction with the 2002 annual accounts.

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 2002 except that the Group has adopted the SSAP 12 “Income taxes” issued by the HKSA which is effective for accounting periods commencing on or after 1st January 2003.

Deferred taxation is provided using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantially enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

In prior period, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the new SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in the Condensed Statement of Changes in Equity, opening retained earnings at 1st January 2003 and 2002 have been reduced by HK\$235,259 and increased by HK\$106,069 respectively, which represent the net deferred tax liabilities and the net deferred tax assets respectively. This change has resulted in an increase in deferred tax assets and deferred tax liabilities at 31st December 2002 by HK\$956,210 and HK\$1,191,469, respectively. The loss for the six months ended 30th June 2002 has been increased by HK\$229,548.

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, financial planning and insurance broking, and trading and broking of precious metal contracts. Total revenues recognised during the period are as follows:

	Six months ended 30th June	
	2003 HK\$'000	2002 HK\$'000
Turnover		
Fees and commission	36,552	40,561
Net revenue from		
– foreign currency option trading	6,164	3,951
– bullion trading	124	–
Net premium income from		
– foreign currency option broking	1,529	1,390
– insurance brokerage	119	178
Swap interest and foreign exchange trading revenue	19,377	17,732
Interest income	3,503	3,681
Consultancy fee income	195	273
Underwriting commission	71	222
Management fee and subscription fee income	444	436
	68,078	68,424
Other revenues		
Dividend income from listed securities	62	27
Other income including exchange gains	285	1,164
	347	1,191
Total revenues	68,425	69,615

2. Turnover, other revenues and segment information (Continued)***Primary reporting format – Business Segments***

The business of the Group was organised into the following segments during the period:

1. Leveraged foreign exchange trading/broking – providing leveraged forex trading services on world's major currencies
2. Securities broking – providing broking services on securities listed in Hong Kong and selected overseas markets and margin financing to those brokerage clients
3. Commodities and futures broking – providing broking services on commodities and futures contracts traded in Hong Kong and selected overseas markets
4. Corporate finance – providing corporate finance services mainly to companies listed in Hong Kong
5. Asset management – managing private funds and acting as investment manager of investment companies
6. Financial planning and insurance broking – acting as agent for sale of savings plan, unit trust, general and life insurance
7. Trading/broking on precious metal contracts – providing trading services on selected precious metal

There was no significant transaction between the business segments.

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. China – mainly consists of retail clients
3. Other countries – principally consists of clients from New Zealand, United Kingdom and Japan for the six months ended 30th June 2003 – each contributed less than 10% of the turnover and profit of the Group

There was no significant transaction between the geographical segments.

2. Turnover, other revenues and segment information (Continued)

Primary reporting format – Business Segments

	Six months ended 30th June 2003								Total
	HK\$'000								
	Leveraged foreign exchange trading/ broking	Securities broking	Commodities and futures broking	Corporate finance	Asset management	Financial planning & insurance broking	Precious metal contracts trading/ broking	Unallocated	
Turnover	37,098	7,396	6,312	4,118	445	12,013	512	184	68,078
Segment results	6,963	(2,941)	(316)	41	(321)	980	(944)	(787)	2,675
Operating profit									2,675
Finance costs									(427)
Share of profit of an associated company									593
Profit before taxation									2,841
Taxation									(787)
Profit attributable to shareholders									2,054

	Six months ended 30th June 2002								Total
	HK\$'000								
	Leveraged foreign exchange trading/ broking	Securities broking	Commodities and futures broking	Corporate finance	Asset management	Financial planning & insurance broking	Unallocated		
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 profit of an associated company									2,597
Loss before taxation									(3,664)
Taxation									(553)
Loss attributable to shareholders									(4,217)

2. Turnover, other revenues and segment information (Continued)

Secondary reporting format – Geographical Segments

	Turnover	
	Six months ended 30th June	
	2003	2002
	HK\$'000	HK\$'000
Hong Kong	50,770	57,320
China	9,891	1,020
Other countries	7,417	10,084
	68,078	68,424

3. Operating profit/(loss)

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

	Six months ended 30th June	
	2003	2002
	HK\$'000	HK\$'000
<i>Crediting</i>		
Write-back on provision for doubtful debts	960	118
<i>Charging</i>		
Amortisation of trading rights	437	408
Amortisation of goodwill	–	1,619
Auditors' remuneration	583	914
Bad debts written off	7	342
Depreciation of fixed assets	1,678	1,880
Interest paid to clients on margin deposits	2	36
Legal and professional fee	476	1,369
Rent and rates	4,462	5,200
Staff costs	20,462	17,616
Unrealised loss on investment in securities held for trading purposes	7	–
Commission and other rebates	26,727	31,790

4. Staff costs

	Six months ended 30th June	
	2003	2002
	HK\$'000	HK\$'000
Salaries and allowances	19,869	17,079
Mandatory provident fund – defined contribution plans	593	537
	20,462	17,616

5. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit for the six months ended 30th June 2003. In 2003, the government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

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

	Six months ended 30th June	
	2003	2002
	HK\$'000	HK\$'000
Hong Kong profits tax	970	323
Share of taxation attributable to an associated company in overseas	65	1
Deferred taxation	(248)	229
	787	553

Deferred taxation is provided on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. Deferred income tax assets are recognised for tax loss carried forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. The principal temporary differences arise from depreciation on fixed assets. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

6. Dividends

	Six months ended 30th June	
	2003	2002
	HK\$'000	HK\$'000
Interim of HK\$Nil (2002: HK\$Nil) per ordinary share	–	–
Final, paid, of HK\$Nil per ordinary share (2002 : HK\$0.02)	–	7,823
	–	7,823

7. Earnings/(loss) per share

The calculation of basic and diluted earnings/(loss) per share are based on the Group's profit attributable to shareholders of HK\$2,054,203 (2002: a loss of HK\$4,217,364).

The basic earnings/(loss) per share is based on the weighted average number of 391,130,000 (2002: 398,798,066) ordinary shares in issue during the six months ended 30th June 2003. The diluted earnings per share for the six months ended 30th June 2003 is based on 391,877,274 ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average number of 747,274 ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

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, which is deemed to be issued if all outstanding share options had been exercised, would be anti-dilutive.

8. Capital expenditure

	Membership				
	Stock	Futures	Chinese	Total	Fixed
	Exchange	Exchange	Gold	intangible	assets
	trading	trading	& Silver	assets	assets
	rights	right	Society	assets	assets
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Six months ended 30th June 2003					
Net book amount as at 1st January 2003	2,490	1,112	300	3,902	9,181
Additions	–	–	–	–	699
Amortisation charge/depreciation	(332)	(75)	(30)	(437)	(1,678)
Net book amount as at 30th June 2003	2,158	1,037	270	3,465	8,202

9. Trade and other receivables

	Unaudited 30th June 2003 HK\$'000	Audited 31st December 2002 HK\$'000
Trade receivables from clients	22,056	23,245
Less: provision for doubtful debts	(5,784)	(6,679)
Margin finance loans	43,529	51,029
Less: provision for doubtful debts	(4,795)	(4,859)
Margin and other trade related deposits with brokers and financial institutions	53,157	52,581
Total trade receivables	108,163	115,317
Rental and utilities deposits	4,642	4,538
Prepayments and other receivables	4,884	6,285
Total trade and other receivables	117,689	126,140

The Group maintains designated accounts with The SEHK Options Clearing House Limited (“SEOCH”) and HKFE Clearing Corporation Limited (“HKFECC”) as a result of its normal business transactions. At 30th June 2003, the designated accounts with SEOCH and HKFECC not otherwise dealt with in these accounts amounted to HK\$286,300 and HK\$8,055,994 respectively (2002: HK\$56,295 and HK\$10,171,251 respectively). At 31st December 2002, the designated accounts with SEOCH and HKFECC not otherwise dealt with in these accounts amounted to HK\$302,806 and HK\$9,389,194 respectively.

As at 30th June 2003, the aging analysis of the trade receivables was as follows:

	Unaudited 30th June 2003 HK\$'000	Audited 31st December 2002 HK\$'000
Current	111,485	114,729
30 – 60 days	241	322
Over 60 days	7,015	11,804
Less : Provision for doubtful debts	(10,578)	(11,538)
	108,163	115,317

10. Bank balances and cash

	Unaudited	Audited
	30th June	31st December
	2003	2002
	HK\$'000	HK\$'000
Cash in hand	539	90
Bank balances	163,644	165,081
	164,183	165,171
(a) By maturity		
Bank balances		
– Current and savings account	92,242	75,968
– Fixed deposits (maturing within three months)	71,402	89,113
	163,644	165,081

- (b) As at 30th June 2003, bank balances amounted to HK\$10,484,000 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 2003, HK\$16,405,000 of the banking facilities has been utilised by a subsidiary of the Company which engages in securities broking (at 31st December 2002: HK\$23,940,000).

The subsidiaries of the Group maintained segregated trust accounts with authorised institutions as a result of their respective business activities. At 30th June 2003, segregated trust accounts not otherwise dealt with in these accounts amounted to HK\$127,059,505 (At 31st December 2002: HK\$84,356,877).

11. Trade and other payables

	Unaudited	Audited
	30th June	31st December
	2003	2002
	HK\$'000	HK\$'000
Margin and other deposits payable to clients	27,118	21,406
Trade payable to brokers	1,440	9,341
Total trade payables	28,558	30,747
Accruals and other payables	15,205	17,493
	43,763	48,240

11. Trade and other payables (continued)

The settlement terms of trade payable from the ordinary course of business of broking in securities payable to clearing houses and securities trading clients are two days after the trade date of those transactions. The margin and other deposits payable to other clients principally represent the margin deposits received from clients for their trading of leveraged foreign exchange, precious metal contracts, futures and commodity contracts. The excess over the required margin deposit stipulated are repayable to clients on demand.

Other 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 2003, 2002 and 30th June 2003	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 2003 and 30th June 2003	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 2002	400,922	40,092
Repurchase of shares (Note)	(9,792)	(979)
At 30th June 2002 and 31st December 2002	391,130	39,113

Note: During the six months ended 30th June 2002, 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.

Defence action had been commenced and will be continued. As 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, no provision has been made by the Group as at 30th June 2003.

- (b) As at 30th June 2003, the Company had issued corporate guarantee to certain banks and financial institutions for credit facilities up to an amount of HK\$168 million (2002: HK\$168 million) granted to a subsidiary which engages in securities broking and up to an amount of HK\$9 million for another subsidiary which engages in precious metals trading. 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. Operating lease commitment

At 30th June 2003, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Unaudited	Audited
	30th June	31st December
	2003	2002
	HK\$'000	HK\$'000
Land and buildings		
Not later than one year	8,425	8,575
Later than one year and not later than five years	130	3,881
	8,555	12,456

15. Assets, liabilities and commitments in foreign currencies

	Unaudited	Audited
	30th June	31st December
	2003	2002
	HK\$'000	HK\$'000
Total assets in foreign currencies included in the balance sheet	160,184	166,468
Total liabilities in foreign currencies included in the balance sheet	844	8,547
Total commitments to purchase foreign currencies under leveraged foreign exchange trading contracts (Note (a))	1,866,851	2,129,010
Total commitments to sell foreign currencies under leveraged foreign exchange trading contracts (Note (a))	1,760,967	1,943,170
Total commitments to purchase foreign currencies under option contracts	1,168,420	924,707
Total commitments to sell foreign currencies under option contracts	1,167,378	923,336

- (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.

- (a) During the period, an associated company in Japan transacted leveraged foreign exchange trading and futures trading and another associated company in New Zealand transacted leveraged foreign exchange trading through the Group. Commission was charged on all transactions at normal commercial terms. For leveraged foreign exchange transactions, spreads are based on relevant market rates at the time of each transaction and at the same terms as available to other customers and counterparties of the Group. Total commission of HK\$29,420 (2002: Nil) and swap interest and trading revenue of HK\$19,481,877 (2002: HK\$20,818,619) were resulted from these business transactions with the Group.
- (b) During the period, management fee totalling HK\$280,000 (2002: Nil) was received from an investment company in which the Chairman of the Group is also an executive director of the investment company. Management fee was charged at normal commercial terms.

17. Subsequent events

On 10th June 2003, a wholly owned subsidiary of the Company entered into a sale and purchase agreement with the ultimate holding company, Hantec Holdings Limited, for the acquisition of 20% equity interest in Cosmos Foreign Exchange International Company Limited, incorporated in Taiwan, at a consideration of HK\$6,000,000. The directors are of opinion that the terms of the sale and purchase agreement were negotiated on arm's length basis between the vendor and subsidiary and on normal commercial terms. The transaction was completed on 29th July 2003.