

NOTES TO THE ACCOUNTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited consolidated condensed 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.

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 changed certain of its accounting policies following its adoption of SSAP 12 “Income Taxes” issued by the Hong Kong Society of Accountants which is effective for accounting periods commencing on or after 1st January 2003.

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

Deferred taxation is provided in full, 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 substantively 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.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior year, 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. Management considers that the adoption of the revised SSAP 12 does not have significant impact to the accounts of the Group in the current and prior years.

2. SEGMENT INFORMATION

The Group is principally engaged in five main business segments:

The investment banking and financial services segment, which comprises securities brokerage, commodities trading and corporate finance business.

The technology segment, which includes customisation and selling of trading and back office systems and solutions to financial institutions and intermediaries.

The fine-dining, leisure and tourism segment, which currently comprises restaurant operation and related activities.

The property investment segment, which comprises property investment and related activities.

The investment and others segment, which comprises investment and related activities.

An analysis of the Group's revenue and results for the period by business segment is as follows:

6 months ended 30th June 2003						
<i>HK\$'000</i>						
	Investment banking and financial services	Technology	Fine-dining, leisure and tourism	Property investment	Investment and others	Group
Revenues						
Turnover	<u>20,693</u>	<u>10,047</u>	<u>25,127</u>	<u>2,310</u>	<u>200</u>	<u>58,377</u>
Segment results	<u>(5,922)</u>	<u>(7,515)</u>	<u>(7,126)</u>	<u>1,416</u>	<u>3,901</u>	(15,246)
Unallocated costs						<u>(5,159)</u>
Operating loss						(20,405)
Finance costs						<u>(344)</u>
Loss before taxation						(20,749)
Taxation						-
Minority interests						<u>5,866</u>
Loss attributable to shareholders						<u>(14,883)</u>

6 months ended 30th June 2002

HK\$'000

	Fine-dining, leisure and tourism	Property Investment	Investment and others	Group
Revenues				
Turnover	<u>40,226</u>	<u>2,345</u>	<u>1,754</u>	<u>44,325</u>
Segment results	<u>(7,652)</u>	<u>1,706</u>	<u>1,753</u>	(4,193)
Unallocated costs				<u>(3,924)</u>
Operating loss				(8,117)
Finance costs				<u>—</u>
Loss before taxation				(8,117)
Taxation				<u>—</u>
Minority interests				<u>829</u>
Loss attributable to shareholders				<u>(7,288)</u>

Unallocated costs represent corporate expenses.

3. OPERATING LOSS

Operating loss is stated after crediting and charging the following:

	6 months ended 30th June	
	2003 HK\$'000	2002 HK\$'000
<u>Crediting</u>		
Write-back of over-provision for long service payment obligation	<u>629</u>	<u>—</u>
<u>Charging</u>		
Loss on disposal of fixed assets	<u>317</u>	<u>—</u>

4. TAXATION

No Hong Kong profits tax has been provided as the companies comprising the Group did not derive any assessable profits arising in Hong Kong during the period (2002: nil).

No provision for deferred taxation has been made in the accounts during the six months ended 30th June 2003 (2002: nil) as the Group has net potential deferred tax asset at the balance sheet date. The crystallisation of the deferred tax asset in the foreseeable future was uncertain.

5. LOSS PER SHARE

The calculations of basic and diluted loss per share are based on the Group's net loss attributable to shareholders of HK\$14,883,000 (2002: HK\$7,288,000).

The basic loss per share is based on 145,287,134 (2002: 121,087,134) ordinary shares in issue during the period. The diluted loss per share is based on 145,287,134 ordinary shares in issue during the period plus the weighted average number of 257,961 ordinary shares deemed to be issued at no consideration if all outstanding options with dilutive effect on the basic loss per share had been exercised.

A diluted loss per share amount for the period ended 30th June 2002 has not been disclosed as the share options outstanding during such period had an anti-dilutive effect on the basic loss per share for such period.

6. INTERIM DIVIDEND

The directors do not recommend the payment of any interim dividend for the six months ended 30th June 2003 (2002: Nil).

7. CAPITAL EXPENDITURE

	Goodwill	Trading rights	Total intangible assets	Investment properties	Fixed assets
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Opening net book amount as at 1st January 2003	–	–	–	155,000	22,326
Additions through acquisition of Value Convergence Holdings Limited (Note 12)	21,721	3,757	25,478	–	18,477
Goodwill arising from acquisition of Value Convergence Holdings Limited (Note 12)	598	–	598	–	–
Other additions	–	–	–	–	2,870
Disposals	–	–	–	–	(875)
Depreciation/amortisation charge	(1,514)	(211)	(1,725)	–	(7,536)
Closing net book amount as at 30th June 2003	<u>20,805</u>	<u>3,546</u>	<u>24,351</u>	<u>155,000</u>	<u>35,262</u>

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition. The goodwill is included in intangible assets and is amortised using the straight-line method over its estimated useful life.

Trading rights represent rights on The Stock Exchange of Hong Kong Limited ("HKSE") and Hong Kong Futures Exchange Limited ("HKFE") acquired as part of the consideration for original membership shares in the HKSE and the HKFE following merger of HKSE and HKFE and their respective clearing houses in March 2000 and subsequent listing of HKSE.

8. PLEDGED BANK DEPOSITS

As at 30th June 2003, the Group's bank deposits amounting to HK\$1,100,000 (31st December 2002: HK\$1,100,000) were pledged to secure a letter of guarantee to the extent of HK\$1,031,000 (31st December 2002: HK\$1,031,000) granted by a bank for the Group's water and electricity deposits.

9. TRADE RECEIVABLES

Included in trade receivables are trade debtors and their ageing analysis is as follows:

	Within 30 days <i>HK\$'000</i>	31 to 90 days <i>HK\$'000</i>	Over 90 days <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance at 30th June 2003	<u>187,362</u>	<u>1,205</u>	<u>9,423</u>	197,990
Provision for doubtful debts				<u>(4,880)</u>
				<u>193,110</u>
Balance at 31st December 2002 (Note 15)	<u>1,770</u>	<u>983</u>	<u>29</u>	<u>2,782</u>

The Group's fine-dining, leisure and tourism and property investment segments are largely operated on cash on delivery or payment in advance terms, except for those well-established customers to whom credit terms are granted. The Group generally allows normal terms of credit of 30 to 60 days to its well-established customers.

The Group's trade receivables for technology and investment banking and financial services segments are due immediately from date of billing. For the trade receivables for technology segment, the Group will generally grant a normal credit period of 30 days on average to its customers.

Certain companies in the Group maintain trust accounts with HKFE Clearing Corporation Limited ("HKFECC") for their clients as a result of their normal business transactions. As at 30th June 2003, trust accounts with HKFECC not otherwise dealt with in the accounts amounted to approximately HK\$7,181,000 (31st December 2002: nil).

10. TRADE PAYABLES

Included in trade payables are trade creditors and their ageing analysis is as follows:

	Within 30 days <i>HK\$'000</i>	31 to 90 days <i>HK\$'000</i>	Over 90 days <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance at 30th June 2003	<u>84,094</u>	<u>104</u>	<u>197</u>	<u>84,395</u>
Balance at 31st December 2002 (<i>Note 15</i>)	<u>2,356</u>	<u>–</u>	<u>–</u>	<u>2,356</u>

11. SHARE CAPITAL

	Authorised Ordinary shares of HK\$1 each	
	No. of shares	<i>HK\$'000</i>
At 1st January 2003 and 30th June 2003	<u>480,000,000</u>	<u>480,000</u>

	Issued and fully paid Ordinary shares of HK\$1 each	
	No. of shares	<i>HK\$'000</i>
At 1st January 2003 and 30th June 2003	<u>145,287,134</u>	<u>145,287</u>

12. ACQUISITION

On 5th February 2003, the Group acquired 70.51% equity interests in Value Convergence Holdings Limited (formerly known as iAsia Technology Limited) ("VC") through underwriting of the rights shares issued by VC at HK\$0.1 per rights share. On 3rd March 2003, the Group disposed of 2.94% equity interests in VC to an independent third party. As at 30th June 2003, the Group held 67.57% equity interests in VC.

The total consideration for the underwriting of the rights shares of VC was approximately HK\$100,758,000 and was settled in cash. The fair value of the acquired net identifiable assets at the date of acquisition was approximately HK\$142,045,000, resulting in a goodwill of approximately HK\$598,000. The acquired business contributed turnover of approximately HK\$30,740,000 and operating loss of approximately \$13,437,000 to the Group for the period from 5th February 2003 to 30th June 2003.

The assets and liabilities arising from the acquisition are as follows:

	<i>HK\$'000</i>
Fixed assets (<i>Note 7</i>)	18,477
Intangible assets (<i>Note 7</i>)	25,478
Other non-current assets	6,535
Accounts receivables	110,120
Bank balances and cash	122,900
Other current assets	8,167
Interest– bearing bank borrowings	(106,335)
Other current liabilities	(43,297)
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Fair value of net identifiable assets acquired	142,045
Minority interest	(41,885)
Goodwill (<i>Note 7</i>)	598
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Total purchase consideration	<u>100,758</u>
Total purchase consideration paid	(100,758)
Less: bank balance and cash acquired	122,900
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Net cash inflow from acquisition	<u><u>22,142</u></u>

13. RELATED PARTY TRANSACTIONS

Significant related party transactions, which were carried out in the normal course of the Group's business, are as follows:

	Note	6 months ended 30th June	
		2003 HK\$'000	2002 HK\$'000
Catering income earned from directors and related companies	(a)	679	1,704
Insurance premiums charged by a related company	(b)	453	396
Property management fees charged by a related company	(c)	<u>204</u>	<u>194</u>

- (a) The Group earned catering income in respect of restaurant operations from certain directors and related companies for services provided at a discount ranging between 15% and 40%.
- (b) The Group paid insurance premiums to Jardine Shun Tak Insurance Brokers Limited, an associate of Shun Tak Holdings Limited ("STHL"), to insure the properties and employees of the Group under the terms and conditions applicable to customers of comparable standing. Dr. Stanley Ho and Madam Winnie Ho Yuen Ki, a director and an ex-director of the Company, are also a director and an ex-director and/or have direct and/or indirect beneficial interests in STHL.
- (c) The Group paid management fees to Shun Tak Property Management Limited ("STPML"), a subsidiary of STHL, on a reimbursement basis for building management expenditure paid by STPML on behalf of the Group.

14. SUBSEQUENT EVENT

On 11th August 2003, the Directors announced that the Company proposed to raise approximately HK\$105.3 million before expenses by way of rights issue of not less than 72,643,566 rights shares and not more than 78,697,922 rights shares at a price of HK\$1.45 per rights share on the basis of one rights share for every two ordinary shares in issue.

The major shareholders of the Company, representing about 50.1% of the existing issued share capital of the Company, has agreed to accept the rights shares to be provisionally allotted to them. Kim Eng Securities (Hong Kong) Limited, the underwriter, has agreed to underwrite the remaining rights shares to be issued.

15. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current period's presentation.

DISCLOSURE OF INTERESTS

Directors' interests

As at 30th June 2003, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO") which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Director is taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

(i) Interests in shares of the Company

Name of director	Nature of interest	Notes	Number and approximate percentage of shares interested
Dr. Stanley Ho	Corporate	1	1,585,000 (1.09%)
	Personal	1	8,216,185 (5.66%)
	Family	1	214,727 (0.15%)
Mr. Lawrence Ho	Corporate	2	36,525,675 (25.14%)

Notes:—

1. Dr. Stanley Ho is taken to be interested in 1,585,000 shares as a result of him being beneficially interested in the entire issued share capital of each of Sharikat Investments Limited and Dareset Limited which in turn hold an aggregate of approximately 1.09% of the issued share capital of the Company. Apart from that, Dr. Ho and his spouse personally hold 8,216,185 and 214,727 shares respectively.
2. Mr. Lawrence Ho is taken to be interested in 36,525,675 shares as a result of him being beneficially interested in the entire issued share capital of Lasting Legend Limited which in turn holds approximately 25.14% of the issued share capital of the Company.