

## Notes to Condensed Financial Statements

### 1. Principal Accounting Policies

These unaudited condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and are in compliance with the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

The accounting policies and methods of computation adopted in the preparation of these unaudited condensed consolidated interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2004 except for the adoption of a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) in the current period for the first time as detailed in note 2 to condensed financial statements.

In the preparation of the consolidated financial statements for the year ended 31 December 2004, Hong Kong Interpretation ("HK-Int") 1 (previously Statement of Standard Accounting Practice Interpretation 22) "The Appropriate Accounting Policies for Infrastructure Facilities" was adopted for the first time which was effective on 1 October 2004, subsequent to the last interim period ended 30 June 2004. HK-Int 1 prohibited the use of the sinking fund method as a basis for depreciating or amortising infrastructure assets. This method was previously applied by the associates of the Group in respect of the depreciation of the toll road being held, and by the Group in respect of the amortisation of goodwill arising from the acquisition of a subsidiary holding the interests in those associates in prior years. Details of these changes and the prior year adjustments made in the consolidated financial statements for the year ended 31 December 2004 were disclosed in 2004 Annual Report.

As a result of the adoption of HK-Int 1, certain comparative amounts for the period ended 30 June 2004 have been restated to reflect the above impacts. The Group's amortisation of goodwill and share of profits of associates for the six months ended 30 June 2004 have been increased by HK\$726,000 and decreased by HK\$1,575,000, respectively.

## 2. New and Revised HKFRSs

The Group has adopted the following new and revised HKFRSs which are effective for accounting periods commencing on or after 1 January 2005:

HKAS 1	Presentation of Financial Statements
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 3	Business Combinations
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

## 2. New and Revised HKFRSs (continued)

The adoption of HKASs 1, 7, 8, 10, 12, 14, 16, 18, 19, 21, 23, 24, 27, 28, 33, 37, 38 and HK-Int 4 has had no material impact on the accounting policies of the Group and the methods of computation in the Group's unaudited condensed consolidated interim financial statements. In summary:

- HKAS 1 affects certain presentation in the consolidated balance sheet, consolidated profit and loss account and consolidated statement of changes in equity.
- HKAS 8 affects certain disclosure of the accounts.
- HKAS 24 affects the identification of related parties and the disclosure of related party transactions.
- HKAS 7, 10, 12, 14, 16, 18, 19, 21, 23, 27, 28, 33, 37, 38 and HK-Int 4 do not have any impact as the Group's accounting policies is already in compliance with the standards.

The impact of adopting the other HKFRSs is summarised as follows:

### (a) HKAS 17 - Leases

The adoption of HKAS 17 has resulted in a change in accounting policy relating to leasehold land. Leasehold land and buildings held for own use were previously carried at cost less accumulated depreciation and any impairment losses. In accordance with HKAS 17, the Group's leasehold interest in land and building is separated into leasehold land and leasehold building at the inception of the lease. The leasehold land is classified as being held under operating lease because the title of the land is not expected to pass to the Group by the end of the lease term and therefore is reclassified from fixed assets to prepaid land lease payments, and is stated at cost and amortised on the straight-line basis over the period of the lease.

This change in accounting policy has no material impact on the condensed consolidated profit and loss account. The comparatives on the condensed consolidated balance sheet for the year ended 31 December 2004 have been restated to reflect the reclassification of leasehold land.

## 2. New and Revised HKFRSs (continued)

### (b) HKAS 32 and HKAS 39 – Financial Instruments

The adoption of HKAS 32 and HKAS 39 has resulted in a change in accounting policy for recognition, measurement, derecognition and disclosure of financial instruments. Previously, the Group's investments held for trading and non-trading purposes were classified as short term investments and long term investments, respectively, and were stated in the balance sheet at fair value. Upon the adoption of HKAS 32 and HKAS 39, investments previously held for trading purpose are reclassified as financial assets at fair value through profit or loss, and investments previously held for non-trading purpose are reclassified as available-for-sale financial assets.

In accordance with HKAS 39, the financial assets at fair value through profit or loss are measured at fair value with gains or losses arising from changes in fair value credited or charged to the consolidated profit and loss account for the period in which they arise. Available-for-sale financial assets are those non-derivative investments in listed and unlisted equity securities that are designated as available-for-sale or are not classified in any of the other categories of financial assets as defined in HKAS 39. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the financial asset is sold, collected or otherwise disposed of or until the financial asset is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated profit and loss account. Previously, the Group adopted similar treatment for changes in fair value of short term and long term investments.

In accordance with HKAS 39, the Group assesses at each balance sheet date whether there is any objective evidence that an available-for-sale financial asset is impaired as a result of one or more events that occurred after the initial recognition of the financial asset ("loss events"), and that the loss event has an impact on the estimated future cash flows that can be reliably estimated. If there is objective evidence of impairment, the cumulative loss that had been recognised directly in equity shall be removed from equity and recognised in the consolidated profit and loss account. The amount of the loss recognised in the consolidated profit and loss account shall be the difference between the acquisition cost and current fair value, less any impairment loss on that available-for-sale financial asset previously recognised in the profit and loss account.

This change in accounting policy has no material impact on the condensed consolidated financial statements.

## 2. New and Revised HKFRSs (*continued*)

### (c) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets

Previously, goodwill arising on the acquisition of associates was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment. In accordance with HKFRS 3 and HKAS 36, goodwill arising on acquisition is no longer amortised but instead, is tested annually for impairment. Any impairment loss recognised is not reversed in a subsequent period. The transitional provisions of HKFRS 3 require the accumulated amortisation as at 1 January 2005 to be eliminated with a corresponding decrease in the cost of goodwill.

As a consequence, the Group's goodwill is not amortised during the six months ended 30 June 2005 whereas the amortisation of the Group's goodwill amounted to HK\$1,517,000 (restated) for the six months ended 30 June 2004. In accordance with the transitional provisions of HKFRS 3, the comparative amounts have not been restated.

## 3. Segment Information

The Group's operating businesses can be analysed primarily by business segments. The summarised details of the business segments are as follows:

- (a) securities trading and investment holding
- (b) securities broking and dealing
- (c) securities financing and direct loans
- (d) investment advisory services

The Group's inter-segment sales and transfers are transacted with reference to terms and conditions used for similar transactions with third parties at the then prevailing market prices.

### 3. Segment Information (continued)

The Group's unaudited turnover and results by business segments for the period ended 30 June are as follows.

	Securities trading and investment holding		Securities broking and dealing		Securities financing and direct loans		Investment advisory services		Eliminated on consolidation		Total
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment turnover:											
External customers	65,747	786,408	19,910	36,021	11,479	16,847	3,060	3,584	-	-	100,196
Inter-segment	-	-	-	-	285	-	1,330	1,360	(1,615)	(1,360)	-
Total	65,747	786,408	19,910	36,021	11,764	16,847	4,390	4,944	(1,615)	(1,360)	100,196
Segment results	(5,296)	(18,598)	(6,895)	8,151	11,944	14,079	920	1,227	-	-	673
Unallocated expenses											(636)
Finance costs											(21)
Share of profits of associates											5,840
Profit before tax											5,877
Tax											(653)
Profit from ordinary activities attributable to shareholders											5,224
											6,880

(Restated)

#### 4. Turnover

Turnover represents the aggregate of sales proceeds from securities and futures contracts trading, gross interest income from securities financing and direct loans, commission and brokerage income less rebates, fees for the rendering of services, and dividend income. Revenue from the following activities has been included in turnover:

	Six months ended 30 June	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Financial services:		
Sales proceeds from securities and futures contracts trading	65,338	785,218
Interest income from securities financing and direct loans	8,204	16,713
Commission and brokerage income	19,877	36,114
Rendering of services	3,060	3,220
	<u>96,479</u>	<u>841,265</u>
Others:		
Bank interest income	3,275	134
Dividend income from listed financial assets at fair value through profit or loss/ listed equity investments	394	1,170
Others	48	291
	<u>3,717</u>	<u>1,595</u>
	<u>100,196</u>	<u>842,860</u>

#### 5. Finance Costs

	Six months ended 30 June	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Interest on bank loans and overdrafts	<u>-</u>	<u>21</u>

## 6. Profit Before Tax

The Group's profit before tax is arrived at after charging/(crediting):

	Six months ended 30 June	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000 (Restated)
Depreciation	737	2,406
Amortisation of prepaid land lease payments	21	21
Amortisation of goodwill	-	1,517
Amortisation of Stock and Futures Exchange trading rights	421	421
Net realised losses/(gains) on trading of financial assets at fair value through profit or loss/equity investments and futures contracts	(2,276)	4,687
	<u>          </u>	<u>          </u>

## 7. Tax

Provision for Hong Kong profits tax has been made at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the period.

	Six months ended 30 June	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Current – Hong Kong		
Charge for the period	159	1,500
Underprovision in the prior period	494	-
	<u>          </u>	<u>          </u>
	<u>653</u>	<u>1,500</u>

Share of overseas tax attributable to associates for the six months ended 30 June 2005 of HK\$1,598,000 (2004 restated: HK\$1,137,000) is included in the share of profits of associates.



## 8. Earnings Per Share

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the unaudited profit from ordinary activities attributable to shareholders for the period of HK\$5,223,703 (2004 restated: HK\$6,880,491) and 530,759,126 (2004: 530,759,126) ordinary shares in issue during the period.

### (b) Diluted earnings per share

No diluted earnings per share has been presented for the current and prior periods because there were no dilutive potential ordinary shares in existence during these periods.

## 9. Available-for-sale Financial Assets/Long Term Investments

	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
Unlisted equity investments in Hong Kong, at fair value	<u>227,046</u>	<u>166,281</u>

In accordance with HKAS 39, the long term investments were reclassified as available-for-sale financial assets on 1 January 2005.

Change in fair value of the unlisted equity investments of HK\$60,765,000 was recognised in the investment revaluation reserve during the period.

## 10. Accounts Receivable

	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
Accounts receivable	128,410	370,457
Less: Specific provision for doubtful debts	<u>(23,807)</u>	<u>(21,831)</u>
	<u>104,603</u>	<u>348,626</u>

## 10. Accounts Receivable *(continued)*

	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
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An aged analysis of accounts receivable is as follows:

Current to 30 days	99,020	343,619
31 to 60 days	1,568	1,168
61 to 90 days	1,123	743
Over 90 days	26,699	24,927
	<u>128,410</u>	<u>370,457</u>

The Group allows a credit period up to the settlement dates of respective securities and commodities transactions or a credit period mutually agreed with the contracting parties.

Included in the accounts receivable balance at the balance sheet date is a broker receivable amount due from a substantial beneficial shareholder of the Company, Shenyin & Wanguo Securities Co., Ltd. ("SWSC"), of HK\$6,780,000 (31 December 2004: HK\$113,473,000) which arose from securities dealing transactions. This balance is unsecured, interest-free and payable on the settlement day of the relevant trades.

## 11. Accounts Payable

An aged analysis of accounts payable is as follows:

	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
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Current to 30 days	<u>657,983</u>	<u>960,835</u>
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Included in the accounts payable balance at the balance sheet date is a broker payable amount due to a substantial beneficial shareholder of the Company, SWSC, of HK\$3,618,000 (31 December 2004: HK\$26,185,000) which arose from securities dealing transactions. This balance is unsecured, interest-free and payable on the settlement day of the relevant trades.

## 11. Accounts Payable *(continued)*

Included in the accounts payable balance at the balance sheet date is segregated client money held on behalf of another substantial beneficial shareholder, Shenyin Wanguo (H.K.) Holdings Limited ("SWHKH"), of HK\$22,025,000 (31 December 2004: HK\$23,726,000) which also arose from securities dealing transactions. This balance is unsecured, bears interest at bank deposit savings rate and is payable on request.

## 12. Commitments

### (a) Capital commitments

	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
Contracted, but not provided for	<u>1,624</u>	<u>1,338</u>

### (b) Operating lease commitments as a lessee

The Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
Within one year	7,135	3,938
In the second to fifth years, inclusive	<u>10,451</u>	<u>106</u>
	<u>17,586</u>	<u>4,044</u>

## 13. Related Party Transactions

In addition to the transactions and balances detailed elsewhere in these condensed financial statements, the Group entered into the following material related party transactions during the six-month period.

### (a) Substantial beneficial shareholder

- (i) The Group paid a service fee of HK\$213,000 (period ended 30 June 2004: Nil) and brokerage commissions totaling HK\$893,000 (period ended 30 June 2004: HK\$1,453,000) to SWSC which were based on mutually agreed terms with reference to the prices and conditions similar to those offered to other customers of SWSC.

### 13. Related Party Transactions *(continued)*

#### (a) Substantial beneficial shareholder *(continued)*

- (ii) The Group received brokerage commission income totaling HK\$25,000 (period ended 30 June 2004: HK\$11,000) from SWHKH which was based on the published prices and conditions offer to the major customers of the Group.

#### (b) Subsidiary of a substantial beneficial shareholder

The Group accrued for a research fee of HK\$450,000 (period ended 30 June 2004: Nil) to a subsidiary of SWSC which was based on mutually agreed terms with reference to the prices and conditions similar to those offered to other customers of that subsidiary of SWSC. This amount is included in "other payables and accruals" on the condensed consolidated balance sheet.

#### (c) Key management personnel compensation

	Six months ended 30 June	
	2005	2004
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Short term employee benefits	6,817	6,648
Post-employment benefits	528	488
	7,345	7,136

### 14. Comparative Amounts

Certain comparative amounts have been reclassified and restated to comply with the new and revised HKFRSs' requirements and conform with the current period's presentation.

### 15. Review of Accounts

The Audit Committee has reviewed the unaudited condensed consolidated interim financial statements for the six months ended 30 June 2005.

### 16. Interim Dividend

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2005 (2004: Nil).