

NOTES TO CONDENSED INTERIM ACCOUNTS

1. BASIS OF PREPARATION

These unaudited condensed consolidated interim accounts ("interim accounts") are prepared in accordance with the requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange"), and Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA"). These interim accounts should be read in conjunction with the annual accounts for the year ended 30th June 2001 ("last audited accounts").

The accounting policies and methods of computation used in the preparation of these interim accounts are consistent with those used in the last audited accounts, except that the Group has changed certain of its accounting policies following its adoption of the following SSAPs issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2001:

SSAP 9 (revised)	: Events after the balance sheet date
SSAP 26	: Segment reporting
SSAP 28	: Provisions, contingent liabilities and contingent assets
SSAP 29	: Intangible assets
SSAP 30	: Business combinations
SSAP 31	: Impairments of assets
SSAP 32	: Consolidated financial statements and accounting for investments in subsidiaries

The major changes to the Group's accounting policies and the major effects of adopting these new policies are set out below:

(a) SSAP 9 (revised) : Events after the balance sheet date

In accordance with SSAP 9 (revised), the Group no longer recognises dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively so that the proposed final dividend amounting to HK\$20,649,800 previously recorded as a current liability as at 30th June 2001 has been restated and included in reserves on the balance sheet.

Changes to headings used in the previously reported 30th June 2001 balance sheet and profit and loss account relating to dividends and profit for the period have also been made to reflect the changes resulting from SSAP 9 (revised).

(b) SSAP 26 : Segment reporting

In note 2 to these interim accounts, the Group has disclosed segment revenues and results as defined under SSAP 26. In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format. Comparative information has been presented to conform with this new policy.

(c) SSAP 28: Provisions, contingent liabilities and contingent assets

In accordance with SSAP 28, provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

1. BASIS OF PREPARATION (continued)

(c) SSAP 28: Provisions, contingent liabilities and contingent assets (continued)

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. When inflow is virtually certain, an asset is recognised.

(d) SSAP 29 : Intangible assets

On adoption of SSAP 29, the trading rights of Hong Kong Exchanges and Clearing Limited, the B-shares special seats of Shanghai Stock Exchange and Shenzhen Stock Exchange are recognised as "Intangible assets" rather than "Other assets" on the balance sheet. These rights and seats are stated at costs and amortised using a straight-line basis over ten years. Where an indication of impairment exists, the carrying amount of any intangible assets is assessed and written down immediately to its recoverable amount. The comparatives presented have been restated to conform with the current period's presentation.

(e) SSAP 30 : Business combinations

Goodwill

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 or associated company at the date of acquisition. Goodwill on acquisitions occurring on or after 1st July 2001 will be included in intangible assets and will be amortised using the straight-line basis over its estimated useful life. Goodwill on acquisitions that occurred prior to 1st July 2001 was taken to capital reserve. The Group has taken advantage of the transitional provisions of SSAP 30 and such goodwill has not been retrospectively capitalised and amortised. However, any impairment arising on such goodwill is accounted for in accordance with SSAP 31 "Impairment of assets".

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition. For acquisitions occurring on or after 1st July 2001, negative goodwill is presented in the same balance sheet classification as goodwill.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not present identifiable liabilities, that portion of negative goodwill is recognised in the income statement when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the income statement over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those assets is recognised in the income statement immediately. For acquisitions occurring prior to 1st July 2001, negative goodwill was taken to capital reserve. The Group has taken advantage of the transitional provisions of SSAP 30 and such negative goodwill will not be restated.

2. SEGMENTAL INFORMATION

The Group is principally engaged in investment in securities, securities brokerage, provision of financial advisory services, asset management, and other securities related financial services.

An analysis of the Group's revenues and results for the period by principal activities is as follows:

Business segments

Six months ended 31/12/2001						
	Securities broking and Investment equity capital in securities market HK\$'000		Corporate finance HK\$'000	Asset management and others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Revenues						
Turnover	68,037	28,048	6,114	14,026	-	116,225
Inter-segment revenues	121	14,072	3,491	18,315	(35,999)	-
Other income	-	-	-	987	-	987
Total revenues	68,158	42,120	9,605	33,328	(35,999)	117,212
Segment results	49,346	14,160	3,834	4,969	-	72,309
Share of results of associated companies	-	474	-	(603)	-	(129)
Profit before taxation						72,180

Six months ended 31/12/2000						
	Securities broking and Investment equity capital in securities market HK\$'000		Corporate finance HK\$'000	Asset management and others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Revenues						
Turnover	18,996	58,905	22,257	7,360	-	107,518
Inter-segment revenues	85	5,143	8	2,883	(8,119)	-
Other income	-	-	-	1,033	-	1,033
Total revenues	19,081	64,048	22,265	11,276	(8,119)	108,551
Segment results	16,395	23,476	15,962	8,529	-	64,362
Share of results of associated companies	-	-	-	-	-	-
Profit before taxation						64,362

No geographical analysis is provided as less than 10% of the consolidated turnover and less than 10% of the consolidated trading results of the Group are attributable to markets outside Hong Kong.

3. PROFIT BEFORE TAXATION

Profit before taxation is stated after crediting/(charging) the following:

	Six months ended	
	31/12/2001 HK\$	31/12/2000 HK\$
Net gain on investment in marketable securities	67,644,913	10,945,384
Net gain on sale of other investments	–	7,730,373
Dividend income from listed securities	2,878,311	950,290
Operating lease rentals	558,208	768,750
Write-back of provision for doubtful debts	–	5,000,000
Net gain on disposal of fixed assets	–	2,575
Staff costs	(21,889,833)	(20,055,176)
Operating leases – land and buildings	(2,834,840)	(2,378,934)
Depreciation of owned fixed assets	(1,642,302)	(1,309,254)
Amortisation of trading rights	(463,619)	(316,800)
Provision for doubtful debts	(1,891,977)	(480,178)
Interest expenses on bank overdrafts and loans	(36,416)	(286,037)
Net loss on write-off of fixed assets	(22,335)	–
Net loss on sale of long-term investments	–	(47,900)

4. TAXATION

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profit for the period. No overseas taxation has been charged as there is no assessable profit for this period. The amount of taxation charged to the consolidated profit and loss account represents:

	Six months ended	
	31/12/2001 HK\$	31/12/2000 HK\$
Hong Kong profits tax	3,600,000	6,366,000
Overprovision in prior periods	(1,535,495)	(18,216)
	2,064,505	6,347,784
Share of taxation attributable to associated companies	73,806	–
	2,138,311	6,347,784

5. DIVIDENDS

	Six months ended	
	31/12/2001 HK\$	31/12/2000 HK\$
Interim, proposed, of HK\$0.011 (2000: HK\$0.01) per ordinary share (<i>Note</i>)	11,377,058	10,250,000

Note: At a meeting held on 6th March 2002, the directors declared an interim dividend of HK\$0.011 per share. This proposed dividend is not reflected as a dividend payable in these interim accounts but will be reflected as an appropriation of retained profits for the year ending 30th June 2002.

6. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$70,089,677 (2000: HK\$58,284,574) and the weighted average of 1,033,076,750 (2000: 910,416,667) ordinary shares in issue during the period.

The diluted earnings per share for current period is based on 1,066,697,336 ordinary shares which is weighted average number of ordinary shares in issue during the period plus the weighted average of 33,620,586 ordinary shares deemed to be issued at no consideration if all outstanding options has been exercised.

There is no diluted earnings per share for prior period as the share options to acquire ordinary shares of the Company are exercisable after 28th March 2001.

7. OTHER ASSETS

The balance includes a loan receivable of HK\$25,000,000 (30th June 2001: HK\$Nil). This loan receivable is arising from the ordinary business activities of the Group and is due for repayment after twelve months.

8. BANK BALANCES AND CASH

- (a) As at 31st December 2001, the Group's bank balances of HK\$1,578,998 (30th June 2001: HK\$Nil) was pledged as security against a bank loan of HK\$1,509,025 (30th June 2001: HK\$Nil) granted to the Group.
- (b) As at 30th June 2001, the Group's bank balances of HK\$30,000,000 was pledged to a bank for a temporary standby loan facilities in relation to a general offer done on behalf of a client. This charge was released upon the completion of the deal in August 2001.
- (c) Trust accounts

The Group maintains segregated clients' trust accounts with licensed banks to hold clients' deposits arising from normal business transactions. As at 31st December 2001, trust accounts not otherwise dealt with in these interim accounts amounted to HK\$80,005,556 (30th June 2001: HK\$99,658,622).

9 ACCOUNTS RECEIVABLE

	31/12/2001 HK\$	30/6/2001 HK\$
Trade receivable		
Amounts due from brokers and clearing houses	640,549	72,806,652
Clients' accounts receivable, net of provisions	39,396,980	42,218,547
Loans receivable, net of provisions	18,473,995	7,309,171
Others	7,264,552	11,059,812
	65,776,076	133,394,182
Prepayments, deposits and other receivables	9,497,778	13,160,589
	75,273,854	146,554,771
	31/12/2001 HK\$	30/6/2001 HK\$
Ageing analysis for trade receivable prepared based on the overdue period is detailed as follows:		
Within one month	57,940,754	120,966,907
More than one month and less than three months	1,028,340	39,155
More than three months	6,806,982	12,388,120
	65,776,076	133,394,182

The margin clients of the stock brokerage division are required to pledge their shares to the Group in order to get the credit facilities for securities trading. The amount of credit facilities granted to them is determined by the discounted value of shares acceptable by the Group.

There is no credit facilities granted to the cash clients of the stock brokerage division. They are required to settle their securities trading balances on the settlement day.

Regarding the Group's financing division, credit terms are granted to individual clients in accordance with their financial background and the value and nature of collaterals received from them.

10 ACCOUNTS PAYABLE

	31/12/2001 HK\$	30/6/2001 HK\$
Trade payable		
Amounts due to brokers and clearing houses within one month	8,625,315	2,504,061
Clients' accounts payable within one month (net of clients' segregated trust accounts)	6,118,478	70,152,593
	14,743,793	72,656,654
Other creditors and accruals	11,777,858	76,459,340
	26,521,651	149,115,994

11 SHARE CAPITAL

	Ordinary shares of HK\$0.1 each	
	No. of shares	HK\$
Authorised		
At 1st July 2000	1,000,000	100,000
– Increase in authorised ordinary share capital pursuant to resolution passed on 10th August 2000	1,999,000,000	199,900,000
At 30th June 2001 and 31st December 2001	2,000,000,000	200,000,000
Issued and fully paid		
At 1st July 2000	–	–
– Increase in share capital pursuant to resolution passed on 10th August 2000	2,000,000	200,000
– Capitalisation issue pursuant to resolution passed on 23rd August 2000	748,000,000	74,800,000
– Public issue on 15th September 2000	275,000,000	27,500,000
– Exercise of share options	7,490,000	749,000
At 30th June 2001 and 1st July 2001	1,032,490,000	103,249,000
– Exercise of share options	1,079,000	107,900
At 31st December 2001	1,033,569,000	103,356,900

11 SHARE CAPITAL (continued)

Share options

On 23rd August 2000, the shareholders of the Company approved and adopted a share option scheme (the "Scheme"). Under the Scheme, the Board of directors (the "Board") may, at its discretion, grant to any full time employees of the Group, including any executive director of any company in the Group, to subscribe for the Company's shares. The subscription price for the Company's shares under the Scheme is determined by the Board and will not be less than 80% of the average closing prices of the Company's shares on the Stock Exchange on the five trading days immediately preceding the date of offer of the option or the nominal value of the Company's shares, whichever is higher. The maximum number of the Company's shares in respect of which options may be granted under the Scheme and any other share scheme of the Company may not exceed 10% of the issued share capital of the Company from time to time.

Details of movements in share options during the period and share options remaining outstanding as at 31st December 2001 are as follows:

Exercise price per share	Exercise period	Date of share options granted	At 1/7/2001	Granted during the period	Exercised during the period	Cancelled during the period	At 31/12/2001
HK\$0.7	28/3/2001-27/3/2005	28/9/00	72,025,000	-	(1,079,000)	(831,000)	70,115,000
HK\$1.03	22/12/2001-21/12/2005	22/6/01	2,265,000	-	-	-	2,265,000
HK\$0.97	1/3/2002-28/2/2006	31/8/01	-	10,930,000	-	-	10,930,000
			74,290,000	10,930,000	(1,079,000)	(831,000)	83,310,000

During the period, an aggregate of 1,079,000 share options were exercised to subscribe for 1,079,000 ordinary shares of the Company at exercise price of HK\$0.7 per share. The total cash proceeds received by the Company was HK\$755,300.

12 RESERVES

	Share premium HK\$	Special reserve HK\$	Capital reserve on consolidation HK\$	Exchange reserve HK\$	Retained profits HK\$	Total HK\$
At 1st July 2000	-	39,800,000	63,212,183	-	168,210,167	271,222,350
Share premium arising on						
- public issue	247,500,000	-	-	-	-	247,500,000
- exercise of share options	4,494,000	-	-	-	-	4,494,000
Listing expenses	(16,580,050)	-	-	-	-	(16,580,050)
Capitalisation issue	(74,800,000)	-	-	-	-	(74,800,000)
Goodwill arising on						
consolidation of subsidiaries	-	-	(7,835,411)	-	-	(7,835,411)
Exchange differences on						
translation of accounts						
of overseas subsidiary	-	-	-	9,352	-	9,352
Profit attributable to						
shareholders	-	-	-	-	201,087,216	201,087,216
Dividends paid						
-2001, interim	-	-	-	-	(10,291,380)	(10,291,380)
					(Note (b))	
At 30th June 2001 as restated	160,613,950	39,800,000	55,376,772	9,352	359,006,003	614,806,077
At 1st July 2001 as						
previously stated	160,613,950	39,800,000	55,376,772	9,352	338,356,203	594,156,277
Effect of adopting						
SSAP 9 (revised)	-	-	-	-	20,649,800	20,649,800
At 1st July 2001 as restated	160,613,950	39,800,000	55,376,772	9,352	359,006,003	614,806,077
Share premium arising on						
exercise of share options	647,400	-	-	-	-	647,400
Exchange differences on						
translation of accounts						
of overseas subsidiary	-	-	-	(3,310)	-	(3,310)
Profit attributable to						
shareholders	-	-	-	-	70,089,677	70,089,677
Dividends paid						
-2001, final (Note (a))	-	-	-	-	(20,671,380)	(20,671,380)
					(Note (b))	
At 31st December 2001	161,261,350	39,800,000	55,376,772	6,042	408,424,300	664,868,464
Attributable to:						
- the Company and						
its subsidiaries	161,261,350	39,800,000	55,376,772	6,042	408,553,376	664,997,540
- associated companies	-	-	-	-	(129,076)	(129,076)
	161,261,350	39,800,000	55,376,772	6,042	408,424,300	664,868,464

12 RESERVES (continued)

Notes:

- (a) On 19th November 2001, a dividend of HK\$0.02 per ordinary share totalling HK\$20,671,380 was paid to shareholders as the final dividend for the year ended 30th June 2001. This final dividend represents prior year's proposed final dividend of HK\$20,649,800 and additional final dividend of HK\$21,580 paid on exercise of share options.
- (b) Retained profits representing:

	31/12/2001 HK\$	30/6/2001 HK\$
Accumulated profits	397,047,242	338,356,203
2002 proposed interim dividend	11,377,058	–
2001 proposed final dividend	–	20,649,800
	408,424,300	359,006,003

13 COMMITMENTS

(a) Commitments under operating leases

As at 31st December 2001, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	31/12/2001 HK\$	30/6/2001 HK\$
Land and buildings		
Within one year	4,722,521	4,967,905
In the second to fifth year inclusive	19,275,180	20,053,518
	23,997,701	25,021,423

(b) Capital commitment for fixed assets

	31/12/2001 HK\$	30/6/2001 HK\$
Contracted but not provided for	–	175,000

(c) Other commitments

As at 31st December 2001, a subsidiary had underwriting commitments of HK\$40,907,111 (30th June 2001: HK\$86,130,000) in relation to a general offer in Hong Kong. The commitments were released subsequently in January 2002 (30th June 2001: August 2001) after the successful completion of the deal.

14 RELATED PARTY TRANSACTIONS

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

	Note	Six months ended	
		31/12/2001 HK\$	31/12/2000 HK\$
Transactions with directors of the Company and its subsidiaries, and their associates:			
Brokerage commissions earned on securities dealing	(a)	126,891	124,456
Transactions with the ultimate holding company and its related companies:			
Advisory fees and commissions earned	(b)	108,651	400,069
Common office expenses reimbursed by related parties	(c)	707,943	1,788,167
Rental income earned	(d)	240,865	–
		1,057,459	2,188,236

- (a) Brokerage commissions arose in the ordinary course of business of dealing in securities. Commission rates are set at the same level as those normally offered to third party clients.
- (b) The advisory fees and commissions represent fees earned from the provision of advisory services and from securities dealing. The advisory fee is generally calculated based on time costs incurred and/or a rate mutually agreed between the parties involved. The basis of commission charges is the same as that mentioned in note (a) above.
- (c) Subsidiaries received reimbursement of office overheads and rental expenses from the ultimate holding company and its related companies. The allocation of general office expenses and rental is based on the percentage of floor area occupied.
- (d) A subsidiary has entered a lease agreement with a related company on normal commercial terms. The lease will expire in 2003.

15 SUBSEQUENT EVENTS

The Group has entered into a conditional agreement with the shareholders of Hani Securities (H.K.) Limited ("Hani") on 4th February 2002 to purchase its 60% interest at a consideration estimated to be HK\$13,171,597 of which HK\$7,902,958 will be settled in cash with the remaining HK\$5,268,639 settled by the issuance of 3,099,199 fully paid shares of the Company at HK\$1.7 per share.