

NOTES TO THE ACCOUNTS

1 CORPORATE INFORMATION

The Company was incorporated in Bermuda under the Companies Act as an exempted company with limited liability on 17th May 2000. Pursuant to a group reorganisation completed on 10th August 2000 (the "Reorganisation") to rationalise the Company and its subsidiaries in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company issued shares in exchange for the entire share capital of SW Kingsway Capital Group Limited and thereby became the holding company of the Group. The Company's shares were successfully listed on the Stock Exchange on 15th September 2000.

2 PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation of the accounts

The accounts have been prepared under the historical cost convention as modified by the revaluation of land and building and investment in securities as appropriate. The principal accounting policies adopted in the preparation of the accounts are in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA").

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("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	: Impairment of assets
SSAP 32	: Consolidated financial statements and accounting for investments in subsidiaries

The accounting policies set out below have taken into account the adoption of these new standards.

(b) Basis of consolidation

- (i) The Group has adopted merger accounting for the Reorganisation as detailed in Note 1. The consolidated accounts have been prepared as if the group structure as at 10th August 2000, the date that the Company became the holding company of the companies comprising the Group, had been in existence prior to 10th August 2000.
- (ii) The consolidated accounts include the accounts of the Company and its subsidiaries made up to 30th June. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill/negative goodwill, or goodwill/negative goodwill taken to capital reserve and which was not previously charged or recognised in the consolidated profit and loss account and also any related accumulated foreign currency translation reserve.

Minority interests represent the interests of the third parties outside the Group in the results and net assets of the Group.

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) Subsidiaries

A subsidiary is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors.

Investments in subsidiaries in the Company's balance sheet are stated at cost less any provisions for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(d) Associated companies

An associated company is a company, not being a subsidiary, in which its equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the post-acquisition results of associated companies for the year. The consolidated balance sheet includes the Group's share of the net assets of the associated companies and also goodwill/ negative goodwill (net of accumulated amortisation/ accumulated amount recognised as income) on acquisition.

Unrealised profits and losses resulting from transactions between the Group and its associated company are eliminated to the extent of the Group's interest in the associated company, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the profit and loss account.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

(e) Revenue recognition

Brokerage and commission income is recognised on a trade date basis. Underwriting and sub-underwriting commission is recognised once the corresponding underwriting exposure has ceased. Financial advisory, consultancy, documentation, secretarial and other service fees are recognised upon services rendered. Transactions of investment in securities and related revenues are recorded on a trade date basis.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Dividend income is recognised when the right to receive payment is established.

Payments received under operating leases net of any incentives paid to the lessee are recognised as rental income on a straight-line basis.

(f) Dividends

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 (Note 26). The comparatives presented have been restated to conform to the changed policy.

NOTES TO THE ACCOUNTS

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(g) Segment reporting

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. No geographical analysis is provided as less than 10% of the consolidated turnover, consolidated operating results or consolidated total assets of the Group are attributable to markets outside Hong Kong.

Segment assets comprise intangible assets, fixed assets, investments (excluding investments in subsidiaries), receivables, operating cash and other assets. Segment liabilities comprise operating liabilities but exclude taxation. Balances of non-interest bearing inter-segment current accounts which are employed by the segments as part of the Group's capital allocation are excluded from segment assets and liabilities.

(h) Intangible assets

(i) *Trading rights and exchange seats*

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. The comparatives presented have been restated to conform with the current year's presentation.

These rights and seats are stated at cost less accumulated amortisation and accumulated impairment losses, and are amortised on a straight-line basis over ten years.

(ii) *Goodwill / negative goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets acquired at the date of acquisition. Goodwill on acquisitions occurring on or after 1st July 2001 will be included as 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 that such goodwill has not been restated. 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. Negative goodwill on acquisitions occurring on or after 1st July 2001 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 represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the consolidated profit and loss account 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 consolidated profit and loss account over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the consolidated profit and loss account 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 that such negative goodwill has not been restated.

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(i) Fixed assets

Fixed assets are stated at cost or valuation less accumulated depreciation and accumulated impairment losses, and are depreciated at rates sufficient to write off their costs or revalued amount over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Land and building	2%
Leasehold improvements	20%
Furniture and fixtures	20%
Office equipment	20%
Motor vehicles	20%

Land and building is stated in the balance sheet at revaluation amount less subsequent accumulated depreciation and accumulated impairment loss. Revaluation is performed with sufficient regularity to ensure that the carrying amount of land and building does not differ materially from that which would be determined using fair value at the balance sheet date. Increase in valuation is credited to the revaluation reserve. Decrease in valuation is firstly offset against increase on earlier valuations in respect of the same land and building and is thereafter debited to the operating profit. Any subsequent increase is credited to the operating profit up to the amount previously debited. Upon the disposal of land and building, the relevant portion of the realised revaluation reserve in respect of previous valuations is transferred from the revaluation reserve to the retained profits.

The gain or loss on disposal of other fixed assets is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

(j) Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that these assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as a revaluation decrease under that SSAP.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that SSAP.

NOTES TO THE ACCOUNTS

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(k) Investments

(i) *Long term investments*

Long term investments include club debentures, equity securities and held-to-maturity debt securities which are intended to be held on a continuing basis for identified long term purposes.

Long term investments other than held-to-maturity debt securities are stated at cost less any provision for impairment losses. The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amounts of such investments will be reduced to their fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

Held-to-maturity debt securities are stated in the balance sheet at cost plus/less any discount/premium amortised to date. The discount or premium is amortised over the period to maturity and included as interest income/expense in the profit and loss account.

The carrying amounts of individual held-to-maturity securities or holdings of the same securities are reviewed at the balance sheet date in order to assess the credit risk and whether the carrying amounts are expected to be recovered. Provisions are made when the carrying amounts are not expected to be recovered and are recognised in the profit and loss account as an expense immediately.

(ii) *Marketable securities*

Marketable securities are listed securities and are carried at fair value. Fair value is determined based on quoted market prices less provisions as considered appropriate by the directors. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of marketable securities are recognised in the profit and loss account. Profits or losses on disposal of marketable securities, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(iii) *Other investments*

Other investments represent investments other than long term investments and marketable securities. Other investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the profit and loss account. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(l) Provisions for bad and doubtful debts

Provisions are made against accounts receivable and loan receivables to the extent that their recoverability are considered to be doubtful by the directors. Accounts receivable and loan receivables in the balance sheet are stated net of such provisions.

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(m) Provisions, contingent liabilities and contingent assets

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, 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.

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 an outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that the outflow is probable, it 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 events not wholly within the control of the Group. A contingent asset is not recognised but is disclosed in the notes to the accounts when an inflow of economic benefits is probable. When the inflow is virtually certain, an asset is recognised.

(n) Deferred taxation

Deferred taxation is accounted for at the current tax rate in respect of timing differences between profit as computed for taxation purpose and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(o) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet and the profit and loss of subsidiaries expressed in foreign currency are translated at the rates of exchange ruling at the balance sheet date. Exchange differences are dealt with as a movement in reserves.

(p) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease term.

(q) Share options

The financial impact of share options granted by the Company is not recorded in these accounts until such time as the share options are exercised. Upon the exercise of the share options, proceeds from the resulting shares issued are recorded by the Company in the share capital and share premium account as appropriate.

NOTES TO THE ACCOUNTS

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(r) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from the date of investment less bank overdrafts and advances repayable within three months from the date of advance.

(s) Related parties

For the purposes of these accounts, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operation decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

3 TURNOVER AND TOTAL REVENUES

The Company is an investment holding company. The Group is principally engaged in investment in securities, stock and futures brokerage, provision of financial advisory services, asset and fund management, money lending and other securities related financial services. The activities of its principal subsidiaries are set out in note 32 to the accounts.

	2002 HK\$	2001 HK\$
Turnover		
Gain on investment in marketable securities	86,556,818	195,151,644
(Loss)/gain on other investments	(287,037)	7,509,469
Gain on disposal of long term investments	–	485,538
Commission and fee income on		
– stock and futures brokerage	16,225,169	42,780,573
– underwriting and placement in equity capital market	25,319,090	31,781,563
– corporate finance	21,129,570	25,496,531
– asset and fund management	10,608,325	2,253,744
– loan arrangement	280,000	30,000
Interest income from		
– bank deposits	4,771,574	10,285,340
– financing	6,520,642	13,981,887
– unlisted debt securities	1,839,083	–
– others	273,532	1,557,367
Dividend income from listed equity securities	14,844,125	1,467,116
Miscellaneous fee income	4,145,834	2,997,005
	192,226,725	335,777,777
Other revenues		
Rental income from land and building	422,352	1,419,050
Gain on disposal of a subsidiary	–	165,107
Loss on disposal of an associated company	(326,834)	–
Others	376,546	478,598
	472,064	2,062,755
Total revenues	192,698,789	337,840,532

NOTES TO THE ACCOUNTS

4 OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

Crediting

Negative goodwill on acquisition of a subsidiary (included in other revenues) (Note 30(b))

Net gain on disposal of fixed assets

Charging

Staff costs

Amortisation of intangible assets

Provision for doubtful debts (net)

Operating leases – land and building
– office equipment

Depreciation

Net loss on disposal of fixed assets

Auditors' remuneration

Deficit on revaluation of land and building

2002 HK\$	2001 HK\$
180,000	–
–	3,433
51,461,686	52,956,352
1,026,307	926,590
7,426,600	829,312
5,629,405	5,152,834
306,400	285,600
3,448,147	2,751,911
289,507	–
1,304,808	1,090,535
–	1,300,000

5 FINANCE COSTS

Interest on:

- short term bank loans and overdrafts
- others

2002 HK\$	2001 HK\$
116,489	314,798
163,973	–
280,462	314,798

6 TAXATION

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits for the year. Overseas taxation is charged at the appropriate current rates of taxation ruling in the relevant country.

Hong Kong profits tax for the year

Overprovisions in prior years

Overseas taxation

Deferred taxation (Note 27)

Share of taxation attributable to associated companies

2002 HK\$	2001 HK\$
5,387,935	27,779,919
(1,550,188)	(3,345,037)
3,837,747	24,434,882
44,244	–
7,500,000	–
73,806	–
11,455,797	24,434,882

There is no material unprovided deferred taxation for both the current and prior years.

NOTES TO THE ACCOUNTS

7 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders includes a profit of HK\$32,394,641 (2001: HK\$40,411,676) which has been dealt with in the accounts of the Company.

8 DIVIDENDS

Interim dividend paid of HK\$0.011 per share
(2001: HK\$0.01 per share)

Final dividend proposed of HK\$0.02 per share
(2001: HK\$0.02 per share)

2002 HK\$	2001 HK\$
11,432,565	10,291,380
20,818,082	20,649,800
32,250,647	30,941,180

The previously recorded final dividend proposed and declared after the balance sheet date but accrued in the accounts for the year ended 30th June 2001 was HK\$20,649,800. Under the Group's new accounting policy as described in Note 2(f), this has been written back against the opening reserves as at 1st July 2001 as detailed in Note 26 and is now accounted for in the current year in which they were declared.

At a meeting held on 7th October 2002, the directors proposed a final dividend of HK\$0.02 per ordinary share for the year ended 30th June 2002. This proposed dividend is not recognised as a liability in these accounts.

9 EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the Group's profit attributable to shareholders of HK\$76,788,684 (2001: HK\$201,087,216).

The basic earnings per share is calculated based on the weighted average of 1,034,908,902 (2001: 969,121,500) ordinary shares in issue during the year.

The diluted earnings per share is calculated based on 1,069,560,975 (2001: 976,349,252) ordinary shares which is the weighted average number of ordinary shares in issue during the year plus the weighted average number of 34,652,073 (2001: 7,227,752) ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

10 DIRECTORS' AND MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments paid and payable to directors of the Company during the year are as follows:

	2002 HK\$	2001 HK\$
Fees	2,385,000	3,335,000
Salaries, commissions and other allowances	6,912,767	13,614,026
Bonuses	2,000,000	8,400,000
Retirement scheme contributions	45,000	28,000
	11,342,767	25,377,026

Directors' fee disclosed above include HK\$785,000 (2001: HK\$535,000) paid to independent non-executive directors.

In addition to the above emoluments, certain directors were granted share options under the Company's share option scheme. The details of these benefits in kind are disclosed under the paragraph "Directors' interests in shares" in the Report of the Directors.

The emoluments of the directors fell within the following bands:

Emolument bands	Number of directors	
	2002	2001
HK\$ Nil – HK\$1,000,000	5	4
HK\$1,500,001 – HK\$2,000,000	2	–
HK\$3,500,001 – HK\$4,000,000	–	3
HK\$6,000,001 – HK\$6,500,000	1	–
HK\$13,000,001 – HK\$13,500,000	–	1

(b) Management's emoluments

The five individuals whose emoluments were the highest in the Group for the year include 2 (2001: 4) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 3 (2001: 1) individuals during the year are as follows:

	2002 HK\$	2001 HK\$
Salaries, other allowances and benefits in kind	4,773,800	3,303,388
Bonuses	2,664,000	77,729
Retirement scheme contributions	36,000	7,000
	7,473,800	3,388,117

NOTES TO THE ACCOUNTS

10 DIRECTORS' AND MANAGEMENT'S EMOLUMENTS (Continued)

(b) Management's emoluments (Continued)

The emoluments fell within the following bands:

Emolument bands

HK\$2,000,001 – HK\$2,500,000

HK\$2,500,001 – HK\$3,000,000

HK\$3,000,001 – HK\$3,500,000

Number of individuals	
2002	2001
1	–
2	–
–	1

11 SEGMENT REPORTING

The Group's activities are organised under the following business segments:

Investment in securities	:	Proprietary trading in securities
Brokerage and equity capital market	:	Provision of stock and futures brokerage services and margin financing to those brokerage clients, and acting as underwriting and placing agent in the equity capital market
Corporate finance	:	Provision of financial advisory services to corporate in relation to the Listing Rules requirements and other related matters
Asset and fund management	:	Provision of asset management and related advisory services to private equity funds and private clients, and funds management services to authorised unit trusts and Mandatory Provident Funds
Others	:	Include the PRC operations, provision of corporate services and money lending and financing business other than margin financing

Inter-segment revenues are charged among segments at an agreed rate with reference to the rate normally charged to third party customers, the nature of services or the costs incurred.

No geographical analysis is provided as less than 10% of the consolidated turnover, consolidated operating results or consolidated total assets of the Group are attributable to markets outside Hong Kong.

NOTES TO THE ACCOUNTS

11 SEGMENT REPORTING (Continued)

	For the year ended 30th June 2002						Consolidated HK\$
	Investment in securities HK\$	Brokerage and equity capital market HK\$	Corporate finance HK\$	Asset and fund management HK\$	Others HK\$	Eliminations HK\$	
Revenues							
Turnover	103,421,091	50,572,888	21,194,810	10,883,391	6,154,545	-	192,226,725
Inter-segment revenues	167,122	31,312,511	4,300,648	35,320,423	8,194,484	(79,295,188)	-
Other revenues	-	-	-	180,000	292,064	-	472,064
Total revenues	103,588,213	81,885,399	25,495,458	46,383,814	14,641,093	(79,295,188)	192,698,789
Segment results	51,480,065	25,777,728	6,591,401	10,481,658	(6,003,900)		88,326,952
Share of results of associated companies	-	521,347	-	(45,258)	(647,188)		(171,099)
Profit before taxation							88,155,853
Taxation							(11,455,797)
Profit after taxation							76,700,056
Minority interests							88,628
Profit attributable to shareholders							76,788,684
Segment assets	580,064,145	142,047,056	6,252,314	6,886,032	147,582,250	(10,875,283)	871,956,514
Interests in associated companies	-	6,366,341	-	453,604	30,000,000		36,819,945
Total assets							908,776,459
Segment liabilities	12,910,086	27,795,691	3,925,239	39,785,997	9,394,262	(10,875,283)	82,935,992
Unallocated liabilities							53,245,979
Total liabilities							136,181,971
Depreciation and amortisation for the year	-	2,865,440	286,133	433,962	888,919		4,474,454
Capital expenditure incurred during the year	-	1,731,070	114,181	165,455	1,300,560		3,311,266

NOTES TO THE ACCOUNTS

11 SEGMENT REPORTING (Continued)

	For the year ended 30th June 2001						
	Investment in securities HK\$	Brokerage and equity capital market HK\$	Corporate finance HK\$	Asset and fund management HK\$	Others HK\$	Eliminations HK\$	Consolidated HK\$
Revenues							
Turnover	205,800,347	91,067,547	26,837,851	2,280,615	9,791,417	-	335,777,777
Inter-segment revenues	575,906	9,566,004	20,323	4,401,114	3,538,061	(18,101,408)	-
Other revenues	-	643,705	-	-	1,419,050	-	2,062,755
Total revenues	206,376,253	101,277,256	26,858,174	6,681,729	14,748,528	(18,101,408)	337,840,532
Segment results	189,274,984	27,429,731	8,339,820	(1,598,833)	1,061,876		224,507,578
Share of results of associated companies							-
Profit before taxation							224,507,578
Taxation							(24,434,882)
Profit after taxation							200,072,696
Minority interests							1,014,520
Profit attributable to shareholders							201,087,216
Segment assets	426,263,090	279,355,607	12,785,686	8,088,225	201,219,002	(7,272,351)	920,439,259
Interests in associated companies	-	5,918,800	-	-	-		5,918,800
Total assets							926,358,059
Segment liabilities	53,049,829	94,360,591	1,935,446	3,832,365	2,345,721	(7,272,351)	148,251,601
Unallocated liabilities							56,374,700
Total liabilities							204,626,301
Depreciation and amortisation for the year	-	2,526,479	267,285	218,865	665,872		3,678,501
Capital expenditure incurred during the year	-	10,449,381	252,319	1,105,650	1,006,457		12,813,807

NOTES TO THE ACCOUNTS

12 INTANGIBLE ASSETS

	Group	
	2002 HK\$	2001 HK\$
Trading rights of Hong Kong Exchanges and Clearing Limited	7,108,829	8,036,068
B-Share Special Seat of Shanghai Stock Exchange	546,945	–
B-Share Special Seat of Shenzhen Stock Exchange	540,000	1,000,000
Negative goodwill	–	–
	8,195,774	9,036,068

Movements in intangible assets are as follows:

	Negative goodwill HK\$	Trading rights and exchange seats HK\$
Cost		
At 1st July 2001	–	9,711,305
Additions	180,000	586,013
Reclassification	–	(400,000)
At 30th June 2002	180,000	9,897,318
Negative goodwill recognised as income/accumulated amortisation		
At 1st July 2001	–	675,237
Income recognised for the year	180,000	–
Charge for the year	–	1,026,307
At 30th June 2002	180,000	1,701,544
Net book value		
At 30th June 2002	–	8,195,774
At 30th June 2001	–	9,036,068

NOTES TO THE ACCOUNTS

13 FIXED ASSETS

	Group					
	Land and building HK\$	Leasehold improvements HK\$	Furniture and fixtures HK\$	Office equipment HK\$	Motor vehicles HK\$	Total HK\$
Cost or valuation						
At 1st July 2001	12,300,000	3,810,021	1,725,241	7,840,323	1,647,001	27,322,586
Additions						
– through acquisition of a subsidiary (note 30(b))	–	–	–	137,778	–	137,778
– others	–	1,074,496	332,449	1,180,530	–	2,587,475
Disposals						
– through disposal of controlling interest in a subsidiary (note 30(c))	–	–	–	(18,050)	–	(18,050)
– others	–	(198,548)	(67,828)	(137,278)	–	(403,654)
At 30th June 2002	12,300,000	4,685,969	1,989,862	9,003,303	1,647,001	29,626,135
Accumulated depreciation						
At 1st July 2001	255,799	859,932	433,235	2,191,657	1,296,867	5,037,490
Charge for the year	230,876	894,651	355,919	1,681,834	284,867	3,448,147
Acquisition of a subsidiary (note 30(b))	–	–	–	76,459	–	76,459
Disposals						
– through disposal of controlling interest in a subsidiary (note 30(c))	–	–	–	(602)	–	(602)
– others	–	(62,443)	(11,880)	(39,824)	–	(114,147)
At 30th June 2002	486,675	1,692,140	777,274	3,909,524	1,581,734	8,447,347
Net book value						
At 30th June 2002	11,813,325	2,993,829	1,212,588	5,093,779	65,267	21,178,788
At 30th June 2001	12,044,201	2,950,089	1,292,006	5,648,666	350,134	22,285,096
The analysis of cost or valuation at 30th June 2002 of the above assets is as follows:						
At cost	–	4,685,969	1,989,862	9,003,303	1,647,001	17,326,135
At valuation	12,300,000	–	–	–	–	12,300,000
	12,300,000	4,685,969	1,989,862	9,003,303	1,647,001	29,626,135

NOTES TO THE ACCOUNTS

13 FIXED ASSETS (Continued)

The Group's interest in land and building represents a property located in Hong Kong which is held on long lease of more than 50 years. The property is stated in the balance sheet at directors' valuation as at 30th June 2001 by reference to external market quotation less subsequent accumulated depreciation.

The carrying amount of the land and building of the Group at 30th June 2002 would have been HK\$15,398,120 (2001: HK\$15,699,060) had the land and building been carried at cost less accumulated depreciation.

As at 30th June 2002, the property was pledged against the Group's bank overdraft facilities amounted to HK\$6,700,000 (2001: HK\$60,000,000). The Group had not utilised such facilities as at 30th June 2002 (2001: HK\$Nil).

14 OTHER ASSETS

	Group	
	2002 HK\$	2001 HK\$
Statutory deposits	3,370,000	3,285,000
Others	56,198	106,198
	3,426,198	3,391,198

15 INVESTMENT IN A SUBSIDIARY

	Company	
	2002 HK\$	2001 HK\$
Investment at cost:		
Unlisted shares	271,222,350	271,222,350
Amount due from a subsidiary	302,830,899	261,475,462
	574,053,249	532,697,812

The amount due from a subsidiary is unsecured, interest free and has no fixed terms of repayment.

Particulars of the principal subsidiaries of the Group are set out in note 32.

16 INTERESTS IN ASSOCIATED COMPANIES

	Group	
	2002 HK\$	2001 HK\$
Share of net assets	36,819,945	5,918,800

NOTES TO THE ACCOUNTS

16 INTERESTS IN ASSOCIATED COMPANIES (Continued)

The following is a list of the principal associated companies of the Group as at 30th June 2002:

Name	Place of incorporation/ operations	Principal activities	Particulars of issued shares held	Interest held indirectly
KCG Securities Asia Limited	Hong Kong	Securities brokerage	20,000,000 ordinary unlisted shares of HK\$1 each	30%
Sinochem Kingsway Asset Management Limited	Cayman Islands/ Hong Kong	Asset management	70,000 ordinary unlisted shares of US\$1 each	50%
Sinochem Kingsway Capital Inc.	Cayman Islands	Investment holding	80,000 ordinary unlisted shares of HK\$0.1 each	37.5%

17 LONG TERM INVESTMENTS

	Group	
	2002 HK\$	2001 HK\$
Unlisted held-to-maturity convertible bonds, at amortised cost	44,070,000	50,070,000
Listed equity shares in Hong Kong (Note)	13,660,000	13,660,000
Unlisted equity shares, at cost	100	13,532
Club debentures, at cost	1,144,000	694,000
	58,874,100	64,437,532
Market value of listed securities	9,406,500	9,827,500

Note: These shares are stated at cost which represents the fair value on the date of their transfer from marketable securities to long term investments in prior year.

18 BANK BALANCES AND CASH

The Group maintains segregated clients' trust accounts with a licensed bank to hold clients' monies arising from normal business transactions. As at 30th June 2002, trust accounts not otherwise dealt with in these accounts amounted to HK\$64,977,141 (2001: HK\$99,658,622).

19 PLEDGED BANK BALANCES

- As at 30th June 2002, the Group's bank deposits of HK\$1,573,238 (2001: HK\$Nil) was pledged as collateral against a bank loan of HK\$1,503,521 (2001: HK\$Nil) granted to the Group. The pledge was subsequently released upon the repayment of the bank loan in August 2002.
- As at 30th June 2001, the Group's bank balance of HK\$30,000,000 was pledged to a bank for a temporary standby loan facility in relation to a general share offer on behalf of a client. This charge was released upon the completion of the deal in August 2001.

NOTES TO THE ACCOUNTS

20 MARKETABLE SECURITIES

	Group	
	2002 HK\$	2001 HK\$
Listed equity securities, at fair value		
– in Hong Kong	467,161,419	271,738,372
– outside Hong Kong	1,295,495	–
	468,456,914	271,738,372
Market value of listed equity securities	484,403,093	274,227,467

As at 30th June 2002, the carrying amount of interests in the following company exceeded 10% of total assets of the Group:

Name	Place of incorporation	Principal activities	Particulars of issued shares held	Interest held
Shenzhen Investment Limited	Hong Kong	Property development and investment, provision of transportation services, investment in infrastructure businesses and provision of services in relation to information technology	Ordinary shares	4.34%

21 OTHER INVESTMENTS

	Group	
	2002 HK\$	2001 HK\$
Unlisted investments, at fair value		
– authorised unit trusts	5,712,963	–
– equity securities	1,780,000	–
– debt securities	4,000,000	3,000,000
	11,492,963	3,000,000

NOTES TO THE ACCOUNTS

22 ACCOUNTS RECEIVABLE

	Group		Company	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Trade receivables, net of provisions:				
Amounts due from brokers and clearing houses	340,165	71,942,259	–	–
Amounts due from margin clients	18,915,132	31,798,723	–	–
Amounts due from cash clients	3,869,990	10,419,824	–	–
Loan receivables	94,215,960	7,309,171	–	–
Others	34,153,860	11,059,812	–	–
	151,495,107	132,529,789	–	–
Less: Long term portion of loan receivable due over one year	(21,250,000)	–	–	–
	130,245,107	132,529,789	–	–
Prepayments, deposits and other receivables	27,942,869	13,160,589	86,002	86,000
	158,187,976	145,690,378	86,002	86,000

The ageing analysis of trade receivables is as follows:

	Group		Company	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Current and within one month	121,125,187	120,102,514	–	–
More than one month and less than three months	1,095,410	39,155	–	–
More than three months	8,024,510	12,388,120	–	–
	130,245,107	132,529,789	–	–

The Group maintains clients' monies arising from the ordinary course of business of dealing in options and futures contracts in trust with HKFE Clearing Corporation Limited ("HKFECC"). At 30th June 2002, the Group held HK\$286,541 (2001: HK\$864,393) with HKFECC in trust for clients which was not dealt with in these accounts.

Margin clients of the stock brokerage division are required to pledge their shares to the Group in order to obtain the credit facilities for securities trading. The amount of credit facilities granted to them is determined by the discounted value of shares accepted by the Group. The amounts due from margin clients are repayable on demand and bear interest at commercial rates.

There are no credit facilities granted to cash clients of the stock brokerage division. They are required to settle their securities trading balances on the settlement day under the relevant market practices or exchange rules.

22 ACCOUNTS RECEIVABLE (Continued)

Amounts due from brokers and clearing houses are required to be settled on the settlement day under the relevant market practices or exchange rules.

Regarding the loans granted by the Group's financing division, the credit terms are set in accordance with the financial background and the value and nature of collaterals pledged by the borrowers.

At 30th June 2002, prepayments, deposits and other receivables included HK\$2,725,131 (2001: HK\$Nil) receivable from a minority shareholder of the Group's subsidiary in the normal course of the Group's business. The amount was subsequently repaid by the minority shareholder after 30th June 2002.

23 AMOUNTS DUE FROM RELATED COMPANIES

The amounts due from related companies are unsecured, interest free and repayable on demand.

24 ACCOUNTS PAYABLE

	Group		Company	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Trade payables within one month:				
Amounts due to brokers and clearing houses	6,261,144	2,504,061	–	–
Clients' accounts payable (net of bank and clearing house balances in trust accounts)	13,115,209	69,288,200	–	–
Others	38,228,023	47,932,498	–	–
	57,604,376	119,724,759	–	–
Other creditors and accruals	23,828,095	28,526,842	466,080	385,047
	81,432,471	148,251,601	466,080	385,047

25 SHARE CAPITAL

Authorised	Ordinary shares of HK\$0.1 each	
	No. of shares	HK\$
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 30th June 2002	2,000,000,000	200,000,000

NOTES TO THE ACCOUNTS

25 SHARE CAPITAL (Continued)

Issued and fully paid

At 1st July 2000

- Increase in share capital pursuant to a resolution passed on 10th August 2000
- Capitalisation issue pursuant to a resolution passed on 23rd August 2000
- Public issue on 15th September 2000
- Exercise of share options

At 30th June 2001 and 1st July 2001

- Exercise of share options (Note (a))
- Issue of shares (Note (b))

At 30th June 2002

Ordinary shares of HK\$0.1 each	
No. of shares	HK\$
–	–
2,000,000	200,000
748,000,000	74,800,000
275,000,000	27,500,000
7,490,000	749,000
1,032,490,000	103,249,000
5,466,322	546,632
2,677,787	267,779
1,040,634,109	104,063,411

Notes:

- (a) During the year, an aggregate of 5,466,322 share options were exercised to subscribe for 5,466,322 ordinary shares of the Company. The total cash proceeds received by the Company was HK\$3,898,575. These shares rank pari passu with the existing shares. Details of the share options outstanding as at 30th June 2002 are as follows:

Exercise price	Date of share options granted	Exercise period	Number of options outstanding	
			2002	2001
HK\$0.7	28/9/2000	28/3/2001– 27/3/2005	63,711,000	72,025,000
HK\$1.03	22/6/2001	22/12/2001 – 21/12/2005	1,210,000	2,265,000
HK\$0.97	31/8/2001	1/3/2002 – 28/2/2006	10,730,000	–
HK\$1.42	28/6/2002	29/12/2002 – 28/12/2006	1,380,000	–
			77,031,000	74,290,000

Further details of the share options granted by the Company are disclosed under the paragraph “Share options” in the Report of the Directors.

- (b) On 2nd April 2002, 2,677,787 ordinary shares of HK\$0.1 each were issued at a premium of HK\$1.6 each for the purchase of investments (Note 30(e)). These shares rank pari passu with the existing shares.

NOTES TO THE ACCOUNTS

26 RESERVES

	Share premium HK\$	Special reserve HK\$ (Note (a))	Group Capital reserve on consolidation HK\$ (Note (b))	Exchange reserve HK\$	Retained profits HK\$	Total HK\$
At 1st July 2000, Proforma	-	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 an 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 (d))	
At 30th June 2001 as restated	160,613,950	39,800,000	55,376,772	9,352	359,006,003	614,806,077
Attributable to the Company and its subsidiaries	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) (Note 8)	-	-	-	-	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	3,351,943	-	-	-	-	3,351,943
- shares issue (Note 25(b))	4,284,459	-	-	-	-	4,284,459
Exchange differences on translation of accounts of overseas subsidiaries	-	-	-	(9,309)	-	(9,309)
Profit attributable to shareholders	-	-	-	-	76,788,684	76,788,684
Dividends paid						
- 2001, final (Note (c))	-	-	-	-	(20,671,380)	(20,671,380)
- 2002, interim	-	-	-	-	(11,432,565)	(11,432,565)
					(Note (d))	
At 30th June 2002	168,250,352	39,800,000	55,376,772	43	403,690,742	667,117,909
Attributable to:						
- the Company and its subsidiaries	168,250,352	39,800,000	55,376,772	43	403,861,841	667,289,008
- associated companies	-	-	-	-	(171,099)	(171,099)
At 30th June 2002	168,250,352	39,800,000	55,376,772	43	403,690,742	667,117,909

NOTES TO THE ACCOUNTS

26 RESERVES (Continued)

	Contributed surplus HK\$ (Note (e))	Company Share premium HK\$	Retained profits HK\$	Total HK\$
At 1st July 2000	–	–	–	–
Contributed surplus arising on the Reorganisation	271,022,350	–	–	271,022,350
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)
Profit for the year	–	–	40,411,676	40,411,676
Dividends paid – 2001, interim	–	–	(10,291,380)	(10,291,380)
At 30th June 2001 as restated	271,022,350	160,613,950	(Note (d)) 30,120,296	461,756,596
At 1st July 2001 as previously stated	271,022,350	160,613,950	9,470,496	441,106,796
Effect of adopting SSAP 9 (revised) (Note 8)	–	–	20,649,800	20,649,800
	271,022,350	160,613,950	30,120,296	461,756,596
Share premium arising on				
– exercise of share options	–	3,351,943	–	3,351,943
– shares issue (Note 25(b))	–	4,284,459	–	4,284,459
Profit for the year	–	–	32,394,641	32,394,641
Dividends paid				
– 2001, final (Note (c))	–	–	(20,671,380)	(20,671,380)
– 2002, interim	–	–	(11,432,565)	(11,432,565)
At 30th June 2002	271,022,350	168,250,352	(Note (d)) 30,410,992	469,683,694

The Company's reserves available for distribution to shareholders as at 30th June 2002 consisted of contributed surplus of HK\$271,022,350 (2001: HK\$271,022,350) and retained profits of HK\$30,410,992 (2001: HK\$30,120,296).

Notes:

- The special reserve of the Group represents the difference between the aggregate of the nominal value and the share premium of the shares of SW Kingsway Capital Group Limited at the date of acquisition by the Company and the nominal value of the shares of the Company issued for the acquisition at the time of the Reorganisation on 10th August 2000.
- The capital reserve of the Group represents goodwill and negative goodwill arising from acquisitions prior to 1st July 2001. As at 30th June 2002, the balance comprises goodwill of HK\$8,042,115 and negative goodwill of HK\$63,418,887.

NOTES TO THE ACCOUNTS

26 RESERVES (Continued)

- (c) 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 shares issued on exercise of share options.
- (d) Retained profits representing:

	Group		Company	
	2002 HK\$	Restated 2001 HK\$	2002 HK\$	Restated 2001 HK\$
2002 proposed final dividend	20,818,082	–	20,818,082	–
2001 proposed final dividend	–	20,649,800	–	20,649,800
Others	382,872,660	338,356,203	9,592,910	9,470,496
	403,690,742	359,006,003	30,410,992	30,120,296

- (e) The contributed surplus of the Company represents the difference between the fair value of the shares of the subsidiary acquired pursuant to the Reorganisation on 10th August 2000 over the nominal value of the Company's shares issued in exchange for.

Under the Companies Act 1981 of Bermuda, a company may make distributions to its shareholders out of contributed surplus under certain circumstances prescribed by Section 54 thereof.

27 DEFERRED TAXATION

	Group	
	2002 HK\$	2001 HK\$
At 1st July	652,779	652,779
Transfer from profit and loss account (Note 6)	7,500,000	–
At 30th June	8,152,779	652,779
Provided for in respect of:		
Accelerated depreciation allowances	652,779	652,779
Other timing differences	7,500,000	–
	8,152,779	652,779

The effect of deferred taxation in respect of the revaluation deficit arising on land and building has not been quantified as the directors consider the disposal of this asset at its carrying value would result in capital gain or loss which is not subject to any tax liability or asset.

NOTES TO THE ACCOUNTS

28 CONTINGENT LIABILITIES

	Group		Company	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Guarantees for banking facilities to subsidiaries	–	–	237,200,000	55,000,000
Guarantees for banking facilities to an associated company	–	2,000,000	–	–
	–	2,000,000	237,200,000	55,000,000

29 COMMITMENTS

(a) Commitments under operating leases

(i) As lessee

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

	Land and buildings		Office equipment	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Within one year	4,639,950	4,967,905	348,000	285,600
In the second to fifth year inclusive	17,059,270	20,053,518	1,392,000	1,068,620
More than five years	–	–	232,000	–
	21,699,220	25,021,423	1,972,000	1,354,220

Original lease terms for business properties held by the Group under non-cancellable operating leases range from two to six years. Longer leases usually contain escalation clauses allowing rent reviews after the lapse of certain initial periods to reflect market rentals.

The sublease agreement dated 10th August 2000 entered into by the Group with the ultimate holding company was terminated on 1st April 2002. As a result, there were no sublease payments under non-cancellable operating leases that were expected to be received at 30th June 2002 (2001: HK\$7,995,000). For the year ended 30th June 2002, HK\$449,940 (2001: HK\$1,023,756) was recognised as income in the profit and loss account in respect of the sublease agreement.

29 COMMITMENTS (Continued)

(a) Commitments under operating leases (Continued)

(ii) As lessor

As at 30th June 2002, the Group had future minimum lease payments receivable under non-cancellable operating lease with a fellow subsidiary as follows:

	Group	
	2002 HK\$	2001 HK\$
Within one year	751,968	–
In the second to fifth year inclusive	93,996	–
	845,964	–

(b) Capital commitment for fixed assets

	Group	
	2002 HK\$	2001 HK\$
Contracted but not provided for	–	175,000

(c) Other commitments

The Group had no underwriting commitments as at 30th June 2002 (2001: HK\$86,130,000).

NOTES TO THE ACCOUNTS

30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating profit to net cash (outflow)/inflow from operating activities

	2002 HK\$	2001 HK\$
Operating profit	88,607,414	224,822,376
Amortisation of intangible assets	1,026,307	926,590
Depreciation	3,448,147	2,751,911
Deficit on revaluation of land and building	-	1,300,000
Negative goodwill	(180,000)	-
Gain on disposal of a subsidiary	-	(165,107)
Loss on disposal of an associated company	326,834	-
Loss/(gain) on disposal of fixed assets	289,507	(3,433)
Gain on disposal of long term investments	-	(485,538)
Gain on disposal of trading right	-	(478,598)
Gain on other investments	-	(7,509,469)
Increase in other assets	(85,000)	(740,000)
Interest income	(5,045,106)	(11,842,707)
Provision for doubtful debts (net)	7,426,600	829,312
Increase in marketable securities	(196,668,542)	(182,556,414)
Increase in other investments	(8,492,963)	(3,000,000)
Increase in pledged bank deposits	(1,573,238)	-
(Increase)/decrease in accounts receivable (including loan receivables)	(27,702,653)	4,202,534
(Increase)/decrease in amount due from related companies	(3,937)	59,618
Decrease in amount due from ultimate holding company	-	34,236
(Decrease)/increase in accounts payable	(67,357,216)	123,619,239
Effect of foreign exchange changes	(13,625)	18,337
Net cash (outflow)/inflow from operating activities	(205,997,471)	151,782,887

(b) Acquisition of subsidiaries

	Group	
	2002 HK\$	2001 HK\$
Net assets acquired:		
Fixed assets	61,319	715,546
Long term investments	450,000	-
Bank balances and cash	359,825	174,950
Debtors and prepayments	477,852	146,813
Creditors and accruals	(405,295)	(549,629)
Net assets acquired	943,701	487,680
(Negative goodwill)/goodwill	(180,000)	7,111,150
	763,701	7,598,830
Satisfied by:		
Cash	763,701	7,598,830

NOTES TO THE ACCOUNTS

30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Acquisition of subsidiaries (Continued)

The analysis of the net cash outflow in respect of the acquisition is as follows:

	Group	
	2002 HK\$	2001 HK\$
Consideration paid in cash	(763,701)	(7,598,830)
Bank balances and cash acquired	359,825	174,950
Net cash outflow in respect of the acquisition of subsidiaries	(403,876)	(7,423,880)

The subsidiaries acquired during the year contributed HK\$408,272 to the Group's net operating cash outflows.

(c) Disposal of controlling interest in a subsidiary

	Group	
	2002 HK\$	2001 HK\$
Cash consideration received	–	3,100,000
Less: Net assets disposed of		
Fixed assets	17,448	319,257
Other assets	–	3,462,000
Accounts receivable	786,000	2,128,049
Bank balances and cash	1,162,348	15,818,676
Accounts payable	(17,750)	(11,998,650)
Minority interest	(974,023)	(875,639)
Net assets disposed of	974,023	8,853,693
Add: Interest retained as an associated company	974,023	5,918,800
Gain on disposal of controlling interest in a subsidiary	–	165,107

The analysis of the net cash outflow in respect of the disposal is as follows:

	Group	
	2002 HK\$	2001 HK\$
Consideration received in cash	–	3,100,000
Bank balances and cash disposed of	(1,162,348)	(15,818,676)
Net cash outflow in respect of the disposal of a subsidiary	(1,162,348)	(12,718,676)

Except for those disclosed above, the subsidiary disposed of had no contribution to the cash flows and results of the Group for the year ended 30th June 2002 (2001: Loss attributable to shareholders of HK\$525,976).

NOTES TO THE ACCOUNTS

30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(d) Analysis of changes in financing during the year

	Share capital (including share premium) HK\$	Short term bank loan HK\$	Minority interests HK\$
At 1st July 2000	200,000	–	2,137,192
Issue of ordinary shares	280,243,000	–	–
Shares issue expenses	(16,580,050)	–	–
Share of results by minority interests	–	–	(1,014,520)
Capital contribution from minority shareholders	–	–	5,136,402
Purchase of minority interest in subsidiaries	–	–	(1,715,739)
Disposal of a subsidiary	–	–	(875,639)
Effect of foreign exchange changes	–	–	8,985
At 30th June 2001 and 1st July 2001	263,862,950	–	3,676,681
Issue of ordinary shares on exercise of share options	3,898,575	–	–
Issue of ordinary shares for purchase of investments (note (e))	4,552,238	–	–
Cash inflow from financing	–	1,503,521	–
Share of results by minority interest	–	–	(88,628)
Purchase of minority interest in a subsidiary	–	–	(1,196,546)
Disposal of controlling interest in a subsidiary	–	–	(974,023)
Effect of foreign exchange changes	–	–	(4,316)
At 30th June 2002	272,313,763	1,503,521	1,413,168

(e) Major non-cash transaction

Part of the consideration for the purchase of investments during the year amounting to HK\$4,552,238 was settled by the issue of 2,677,787 ordinary shares at HK\$1.7 each by the Company (Note 25(b)).

31 RELATED PARTY TRANSACTIONS

In addition to those disclosed elsewhere in the accounts, the following is a summary of significant related party transactions which were carried out in the normal course of the Group's business:

	Note	Group 2002 HK\$	2001 HK\$
Brokerage commission earned on securities dealing	(a)	639,640	753,308
Interest income earned from securities accounts maintained with the Group	(a)	627,922	241,204
Financial advisory, placing and underwriting fees received	(b)	1,030,000	984,955
Common office expenses recharged	(c)	1,045,995	2,043,050
Rental income earned	(d)	562,018	–
Consultancy fee paid	(e)	(450,000)	–
Purchase of fixed assets	(f)	(995,286)	–

Notes:

- (a) Brokerage commission and interest income were received from fellow subsidiaries, the Group's directors and their associates in the ordinary course of the Group's business of dealing in securities. Commission rates and interest rates are set at the same level as those normally offered to third party clients.
- (b) Financial advisory, placing and underwriting fees were received from fellow subsidiaries and associated companies of one of the Group's director. The fees are charged at a rate which is similar to that normally charged to third party clients.
- (c) Amounts represent recharge of office overheads and rental expenses (including sub-lease income) to the ultimate holding company and fellow subsidiaries. The allocation of office overheads and rental expenses is based on the percentage of floor area occupied.
- (d) A subsidiary has entered into a lease agreement with a fellow subsidiary and received rental income on normal commercial terms with reference to market prices.
- (e) Consultancy fee in relation to the provision of information technology advisory services was paid to a fellow subsidiary at a rate mutually agreed between the parties involved.
- (f) During the year, the Group has acquired certain fixed assets from fellow subsidiaries at a consideration of HK\$995,286. The purchase consideration is based on the net book value of the fixed assets at the date of acquisition.

NOTES TO THE ACCOUNTS

32 PARTICULARS OF SUBSIDIARIES

The following list contains only the particulars of the principal subsidiaries of the Group as at 30th June 2002.

Name	Place of incorporation/ operations	Issued and fully paid share capital	Principal activities	% of ordinary shares held by the Company	
				Directly	Indirectly
Bill Lam & Associates Limited *	Hong Kong	Ordinary shares HK\$20	Provision of corporate services	–	100%
Billion On Development Limited *	Hong Kong	Ordinary shares HK\$10,000	Property holding	–	100%
Joyful Gain Limited	British Virgin Islands	Ordinary share US\$1	Securities investment	–	100%
Kingsway Asia Capital Limited	Hong Kong	Ordinary shares HK\$10,000,000	Provision of financial advisory services	–	100%
Kingsway Asset Management Limited	British Virgin Islands	Ordinary share US\$1	Provision of consultancy and asset management services	–	100%
Kingsway Brokerage Limited	Hong Kong	Ordinary shares HK\$10,000,000	Securities brokerage	–	100%
Kingsway Capital Limited	Hong Kong	Ordinary shares HK\$10,779,002	Provision of financial advisory services	–	100%
Kingsway China Investments Limited	Hong Kong/ People's Republic of China	Ordinary shares HK\$2	Investment holding	–	100%
Kingsway Creanex Limited	British Virgin Islands	Ordinary shares US\$100	Securities investment	–	100%
Kingsway E-Services Limited	Hong Kong	Ordinary shares HK\$10,000,000	Electronic securities brokerage	–	100%
Kingsway Fund Management Limited	Hong Kong	Ordinary shares HK\$40,000,000	Fund management	–	100%

NOTES TO THE ACCOUNTS

32 PARTICULARS OF SUBSIDIARIES (Continued)

Name	Place of incorporation/ operations	Issued and fully paid share capital	Principal activities	% of ordinary shares held by the Company	
				Directly	Indirectly
Kingsway – HIA Investment Products Limited (formerly known as Haussmann International Asia Limited)	Hong Kong	Ordinary shares HK\$5,244,000	Fund distribution	–	100%
Kingsway Lion Spur Technology Limited	British Virgin Islands/ Hong Kong	Ordinary share US\$1	Securities investment	–	100%
Kingsway SW Asset Management Limited	British Virgin Islands/ Hong Kong	Ordinary shares US\$375,000	Provision of investment advisory services	–	100%
Kingsway SW Finance Limited *	Hong Kong	Ordinary shares HK\$50,000	Provision of loan services and financing	–	100%
Kingsway SW Fund Management Limited	Hong Kong	Ordinary shares HK\$5,500,000	Provision of consultancy and fund management services	–	100%
Kingsway SW Futures Limited	Hong Kong	Ordinary shares HK\$8,000,000	Futures and commodities brokerage	–	100%
Kingsway SW Securities Limited	Hong Kong	Ordinary shares HK\$120,000,000	Securities brokerage	–	100%
Kingsway Unit Trust Managers Limited	Hong Kong	Ordinary shares HK\$2,000,000	Fund management	–	100%
Multi-Rich Assets Limited	British Virgin Islands	Ordinary share US\$1	Investment holding	–	100%
On-Year Profits Limited	British Virgin Islands	Ordinary share US\$1	Securities investment	–	100%
Opal Dragon Investments Limited	British Virgin Islands	Ordinary share US\$1	Securities investment	–	100%
SW Kingsway Capital Group Limited	British Virgin Islands	Ordinary shares US\$1,250,000	Investment holding	100%	–

NOTES TO THE ACCOUNTS

32 PARTICULARS OF SUBSIDIARIES (Continued)

On 28th March 2002, the Group acquired 100% of equity interests in Kingsway – HIA Investment Products Limited for HK\$742,749. The transaction was satisfied in cash. As a result of the acquisition, the Group's profit attributable to shareholders for the year ended 30th June 2002 and the net assets as at 30th June 2002 have been decreased by HK\$301,276 and increased by HK\$862,171 respectively.

* Companies not audited by PricewaterhouseCoopers. The aggregate total assets and turnover of the subsidiaries not audited by PricewaterhouseCoopers contributed to approximately 20% and 6% of the Group's total assets and turnover respectively.

33 ULTIMATE HOLDING COMPANY

The directors regard Kingsway International Holdings Limited, a company incorporated in Bermuda and listed on the TSX Venture Exchange, as being the ultimate holding company.

34 SUBSEQUENT EVENTS

The uncertainties over the global market outlook and the difficult and volatile market conditions in Hong Kong have affected the market value of the Group's portfolio of marketable securities held at year end.

35 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 7th October 2002.