

NOTES TO CONDENSED INTERIM ACCOUNTS

1 BASIS OF PREPARATION

These unaudited condensed consolidated interim accounts ("interim accounts") are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 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 2002 ("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 adopted the following SSAPs issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2002:

| | |
|-------------------|--|
| SSAP 1 (revised) | : Presentation of financial statements |
| SSAP 11 (revised) | : Foreign currency translation |
| SSAP 15 (revised) | : Cash flow statements |
| SSAP 25 (revised) | : Interim financial reporting |
| SSAP 34 (revised) | : Employee benefits |

The major changes of adopting these policies are set out below:

(a) SSAP 1 (revised) : Presentation of financial statements

The Consolidated Statement of Recognised Gains and Losses has been replaced by the Consolidated Statement of Changes in Equity as a component of the Group's accounts.

(b) SSAP 11 (revised) : Foreign currency translation

The balance sheet of subsidiaries expressed in foreign currencies is translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

In prior periods, the profit and loss account of foreign enterprises was translated at closing rate. This is a change in accounting policy; however, the translation of the profit and loss account of foreign enterprises in prior periods have not been restated as the effect of this change is not material to the current and prior periods.

(c) SSAP 15 (revised) : Cash flow statements

In accordance with this revised SSAP, all cash flows are classified under operating, investing or financing activities. Certain comparative figures have been reclassified to conform with the current period's presentation.

2 SEGMENT INFORMATION

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 |

2 SEGMENT INFORMATION (Continued)

- Corporate finance : Provision of financial advisory services in relation to the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and other related matters
- Asset and fund management : Provision of asset management and related advisory services to private equity funds and private clients, and fund management services to authorised unit trusts and mandatory provident funds
- Financing : Provision of money lending and financing services other than margin financing
- Others : Include the operations in People's Republic of China ("China") and provision of corporate services

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 and less than 10% of the consolidated trading results of the Group are attributable to markets outside Hong Kong.

| | Six months ended 31/12/2002 | | | | | | Consolidated HK\$ |
|--|-------------------------------------|---|------------------------------|---|-------------------|--------------------|----------------------|
| | Investment in securities HK\$ | Brokerage and equity capital market HK\$ | Corporate finance HK\$ | Asset and fund management HK\$ | Financing HK\$ | Others HK\$ | |
| Revenues | | | | | | | |
| Turnover | (121,168,787) | 19,915,587 | 13,531,706 | 2,020,588 | 3,031,219 | 2,344,743 | (80,324,944) |
| Inter-segment revenues | 250,289 | 9,890,193 | 1,004,731 | 10,290,200 | - | 4,150,830 | 25,586,243 |
| Other revenues | - | - | - | - | - | 336,164 | 336,164 |
| | <u>(120,918,498)</u> | <u>29,805,780</u> | <u>14,536,437</u> | <u>12,310,788</u> | <u>3,031,219</u> | <u>6,831,737</u> | <u>(54,402,537)</u> |
| Eliminations | | | | | | | (25,586,243) |
| Total revenues | | | | | | | <u>(79,988,780)</u> |
| Segment results | <u>(136,623,672)</u> | <u>5,875,200</u> | <u>3,098,156</u> | <u>(1,421,180)</u> | <u>2,673,482</u> | <u>(1,892,961)</u> | <u>(128,290,975)</u> |
| Share of results of associated companies | - | (106,669) | - | 104,058 | - | (576,044) | (578,655) |
| Loss before taxation | | | | | | | <u>(128,869,630)</u> |

2 SEGMENT INFORMATION (Continued)

| | Six months ended 31/12/2001 | | | | | | |
|--|-------------------------------------|---|------------------------------|---|-------------------|--------------------|----------------------|
| | Investment in securities HK\$ | Brokerage and equity capital market HK\$ | Corporate finance HK\$ | Asset and fund management HK\$ | Financing HK\$ | Others HK\$ | Consolidated HK\$ |
| Revenues | | | | | | | |
| Turnover | 68,036,658 | 28,048,367 | 6,114,058 | 7,679,376 | 855,706 | 5,490,477 | 116,224,642 |
| Inter-segment revenues | 121,227 | 14,071,956 | 3,490,776 | 15,496,638 | 117 | 2,818,149 | 35,998,863 |
| Other revenues | - | - | - | - | - | 987,488 | 987,488 |
| | <u>68,157,885</u> | <u>42,120,323</u> | <u>9,604,834</u> | <u>23,176,014</u> | <u>855,823</u> | <u>9,296,114</u> | <u>153,210,993</u> |
| Eliminations | | | | | | | (35,998,863) |
| Total revenues | | | | | | | <u>117,212,130</u> |
| Segment results | <u>49,346,151</u> | <u>14,160,399</u> | <u>3,833,792</u> | <u>6,762,726</u> | <u>(770,833)</u> | <u>(1,023,549)</u> | <u>72,308,686</u> |
| Share of results of associated companies | - | 474,073 | - | (24,061) | - | (579,088) | (129,076) |
| Profit before taxation | | | | | | | <u>72,179,610</u> |

3 (LOSS)/PROFIT BEFORE TAXATION

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

| | Six months ended | |
|--|--------------------|--------------------|
| | 31/12/2002 HK\$ | 31/12/2001 HK\$ |
| Net (loss)/gain on investment in marketable securities | (124,146,947) | 67,644,913 |
| Dividend income from listed securities | 3,823,338 | 2,878,311 |
| Rental income from land and buildings | 336,164 | 558,208 |
| Interest income from unlisted debt securities | 382,834 | - |
| Loss on other investments | (1,247,165) | - |
| Staff costs | (25,687,920) | (21,889,833) |
| Operating leases – land and buildings | (2,479,005) | (2,834,840) |
| Depreciation of owned fixed assets | (1,734,952) | (1,642,302) |
| Amortisation of intangible assets | (522,920) | (463,619) |
| Provision for doubtful debts | (418,429) | (1,891,977) |
| Interest expenses on | | |
| – bank loans and overdrafts | (833,779) | (36,416) |
| – others | (862,495) | - |
| Net loss on disposal of fixed assets | (287,639) | (22,335) |

4 TAXATION

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

| | Six months ended | |
|--|--------------------|--------------------|
| | 31/12/2002 HK\$ | 31/12/2001 HK\$ |
| Hong Kong profits tax | 1,900,000 | 3,600,000 |
| Overprovision in prior periods | – | (1,535,495) |
| | 1,900,000 | 2,064,505 |
| Overseas taxation | 51,612 | – |
| Share of taxation attributable to associated companies | 3,674 | 73,806 |
| | 1,955,286 | 2,138,311 |

5 DIVIDENDS

(a) Dividend attributable to the interim period

| | Six months ended | |
|--|--------------------|--------------------|
| | 31/12/2002 HK\$ | 31/12/2001 HK\$ |
| Interim dividend of HK\$0.01 (2001: HK\$0.011) per ordinary share | 10,409,941 | 11,377,058 |

At a meeting held on 28th February 2003, the directors declared an interim dividend of HK\$0.01 per ordinary share, totalling HK\$10,409,941 (Note 15) based on the number of shares in issue at 28th February 2003. This 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 2003.

(b) Final dividend attributable to the financial year ended 30th June 2002

At a meeting held on 7th October 2002, the directors proposed a final dividend of HK\$0.02 per ordinary shares for the year ended 30th June 2002, totalling HK\$20,818,082 (Note 15) based on the number of shares in issue at 7th October 2002. On 13th December 2002, a final dividend of HK\$20,819,082 was paid to shareholders and has been reflected as an appropriation of retained profits for the current period.

(c) Final dividend attributable to the financial year ended 30th June 2001

The prior period adjustment on proposed dividend arising from the adoption of the revised SSAP 9 “Events after the balance sheet date” has been disclosed in the last audited accounts.

6 PROPOSED BONUS ISSUE OF SHARES

At a meeting held on 28th February 2003, the directors propose a bonus issue of new shares (the "Proposed Bonus Share Issue") to shareholders whose names appear on the Register of Members at the close of business on 24th March 2003.

The Proposed Bonus Share Issue will be made on the basis of 2 bonus shares for every 1 existing ordinary share. The bonus shares will be credited as fully paid at par and will rank pari passu with the existing ordinary shares in all respects, except that they will not rank for the interim dividend declared by the directors on 28th February 2003 and the Proposed Bonus Share Issue.

The proposal is subject to (i) the approval of the Company's shareholders at the Special General Meeting to be held on 25th March 2003; and (ii) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the bonus shares on the Stock Exchange.

7 (LOSS)/EARNINGS PER SHARE

The calculation of basic and diluted (loss)/earnings per share is based on the Group's loss attributable to shareholders of HK\$130,902,742 (2001: profit of HK\$70,089,677) for the interim period.

The basic (loss)/earnings per share is calculated based on the weighted average of 1,040,872,442 (2001: 1,033,076,750) ordinary shares in issue during the period.

No diluted loss per share is presented for the six months ended 31st December 2002 as the exercise of the outstanding share options of the Company would have an anti-dilutive effect. For the six months ended 31st December 2001, the diluted earnings per share is calculated based on 1,066,697,336 ordinary shares which is the aggregate of the weighted average number of ordinary shares in issue during the period and the weighted average of 33,620,586 ordinary shares deemed to be issued at no consideration if all outstanding options have been exercised.

8 FIXED ASSETS

As at 31st December 2002, the Group's interest in land and building in Hong Kong with a carrying value of HK\$11,697,887 (30th June 2002: HK\$11,813,325) has been pledged as security for the Group's bank overdraft facilities.

9 LONG TERM INVESTMENTS

| | 31/12/2002 HK\$ | 30/6/2002 HK\$ |
|--|--------------------|-------------------|
| Unlisted held-to-maturity convertible bonds, at amortised cost (Note (a)) | 44,070,000 | 44,070,000 |
| Listed equity shares in Hong Kong (Note (b)) | 66,660,000 | 13,660,000 |
| Unlisted equity shares, at cost | 100 | 100 |
| Club debentures, at cost | 1,694,000 | 1,144,000 |
| | 112,424,100 | 58,874,100 |

Notes:

- (a) During the period, certain convertible bonds held by the Group were redeemed prior to their maturity for new convertible bonds issued by the same issuer. The amortised cost of the redeemed convertible bonds at the date of redemption were considered by the Group to be the cost of these newly acquired convertible bonds.
- (b) During the period, certain marketable securities that were previously included in the current assets were identified to be strategically held on a long term basis. Accordingly, they were transferred to long term investments at their fair value of HK\$53 million on the date of transfer. The Group has made no profit or loss from such transfer.

10 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 31st December 2002, trust accounts not otherwise dealt with in these interim accounts amounted to HK\$96,979,835 (30th June 2002: HK\$64,977,141).

11 ACCOUNTS RECEIVABLE

| | 31/12/2002 HK\$ | 30/6/2002 HK\$ |
|---|---------------------|-------------------|
| Trade receivables, net of provisions: | | |
| Amounts due from brokers and clearing houses | 7,222,570 | 340,165 |
| Amounts due from margin clients | 104,701,662 | 18,915,132 |
| Amounts due from cash clients | 4,186,596 | 3,869,990 |
| Loan receivables | 79,629,348 | 94,215,960 |
| Others | 21,359,309 | 34,153,860 |
| | 217,099,485 | 151,495,107 |
| Less: Long term portion of loan receivable due after one year | (10,000,000) | (21,250,000) |
| | 207,099,485 | 130,245,107 |
| Prepayments, deposits and other receivables | 11,954,906 | 27,942,869 |
| | 219,054,391 | 158,187,976 |
| The ageing analysis of trade receivables is as follows: | | |
| Current and within one month | 194,617,460 | 121,125,187 |
| More than one month and less than three months | 1,403,992 | 1,095,410 |
| More than three months | 11,078,033 | 8,024,510 |
| | 207,099,485 | 130,245,107 |

The Group maintains clients' monies arising from ordinary course of business of dealing in options and futures contracts in trust with HKFE Clearing Corporation Limited ("HKFECC"). At 31st December 2002, the Group held HK\$631,015 (30th June 2002: HK\$286,541) 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 securities 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 securities 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.

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.

12 BANK LOANS AND OVERDRAFTS

As at 31st December 2002, the balance included short term bank loans of HK\$26,500,000 (30th June 2002: HK\$1,503,521) which were secured by certain securities collateral received from the Group's margin clients with market value of HK\$452,251,432 (30th June 2002: secured by the Group's bank deposits of HK\$1,573,238).

13 ACCOUNTS PAYABLE

Trade payables

Amounts due to brokers and clearing houses

Amounts due to clients (net of bank and clearing house balances in trust accounts)

Others

Other creditors and accruals

| 31/12/2002 HK\$ | 30/6/2002 HK\$ |
|--------------------|-------------------|
| 114,514 | 6,261,144 |
| 12,024,160 | 13,115,209 |
| 38,000,000 | 38,228,023 |
| 50,138,674 | 57,604,376 |
| 21,130,355 | 23,828,095 |
| 71,269,029 | 81,432,471 |

Trade payables at 31st December and 30th June 2002 were either current or aged within one month.

14 SHARE CAPITAL

Ordinary shares of HK\$0.1 each

No. of shares HK\$

Authorised

At 1st July 2001, 30th June and 31st December 2002 2,000,000,000 200,000,000

Ordinary shares of HK\$0.1 each

No. of shares HK\$

Issued and fully paid

| | | |
|--------------------------------|---------------|-------------|
| At 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 |
| Issue of shares | 2,677,787 | 267,779 |
| Exercise of share options | 4,387,322 | 438,732 |
| At 30th June and 1st July 2002 | 1,040,634,109 | 104,063,411 |
| Exercise of share options | 320,000 | 32,000 |
| At 31st December 2002 | 1,040,954,109 | 104,095,411 |

During the six months ended 31st December 2002, an aggregate of 320,000 share options were exercised to subscribe for 320,000 ordinary shares of the Company at exercise price of HK\$0.7 per share. The total cash proceeds received by the Company was HK\$224,000. Details of the share options outstanding as at 31st December 2002 are disclosed under the heading "Share Options" on page 19.

15 RETAINED PROFITS

| | 31/12/2002 HK\$ | 30/6/2002 HK\$ |
|--|--------------------|--------------------|
| 2003 interim dividend (Note 5(a)) | 10,409,941 | – |
| 2002 proposed final dividend (Note 5(b)) | – | 20,818,082 |
| Others | 241,558,977 | 382,872,660 |
| | 251,968,918 | 403,690,742 |

16 COMMITMENTS

(a) Commitments under operating leases

(i) As lessee

As at 31st December 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

| | Land and buildings | | Office equipment | |
|--|--------------------|-------------------|--------------------|-------------------|
| | 31/12/2002 HK\$ | 30/6/2002 HK\$ | 31/12/2002 HK\$ | 30/6/2002 HK\$ |
| Within one year | 6,134,711 | 4,639,950 | 408,000 | 348,000 |
| In the second to fifth year inclusive | 13,879,914 | 17,059,270 | 884,000 | 1,392,000 |
| More than five years | – | – | – | 232,000 |
| | 20,014,625 | 21,699,220 | 1,292,000 | 1,972,000 |

(ii) As lessor

As at 31st December 2002, the Group had future aggregate minimum lease payments receivable under non-cancellable operating leases with a fellow subsidiary as follows:

| | Land and buildings | |
|---------------------------------------|--------------------|-------------------|
| | 31/12/2002 HK\$ | 30/6/2002 HK\$ |
| Within one year | 375,984 | 751,968 |
| In the second to fifth year inclusive | – | 93,996 |
| | 375,984 | 845,964 |

(b) Other commitments

As at 31st December 2002, a subsidiary of the Group had underwriting commitments of HK\$6,288,125 (30th June 2002: HK\$Nil) in relation to a general offer in Hong Kong. The commitments ceased subsequently in January 2003 after the successful completion of the deal.

17 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 | |
|---|------|--------------------|--------------------|
| | | 31/12/2002 HK\$ | 31/12/2001 HK\$ |
| Brokerage commission earned on securities dealing | (a) | 134,538 | 235,542 |
| Common office expenses recharged | (b) | 222,324 | 707,943 |
| Rental income earned | (c) | 189,950 | 240,865 |
| Consultancy and management fee received | (d) | 492,000 | – |
| Consultancy fee paid | (e) | (450,000) | – |

- (a) Brokerage commission was 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 are set at the same level as those normally offered to third party clients.
- (b) Amounts represent recharge of office overheads and rental expenses to the ultimate holding company, fellow subsidiaries and an associated company. The allocation of office overheads and rental expenses is based on the percentage of floor area occupied.
- (c) A subsidiary has entered a lease agreement with a fellow subsidiary and received rental income on normal commercial terms with reference to market prices.
- (d) Consultancy and management fee were received from an associated company at an agreed rate.
- (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.