

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 except that, as disclosed in the accounting policies below, property and investments in marketable securities and other investments are stated at fair value. 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 2002:

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

The accounting policies set out below have taken into account the effect of adoption of these 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 together with any related accumulated foreign exchange translation reserve.

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

NOTES TO THE ACCOUNTS

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) Subsidiaries

Subsidiaries are those entities in which the company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings 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.

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. Corporate finance advisory, assets and fund management, loan arrangement, 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.

NOTES TO THE ACCOUNTS

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(f) Intangible assets

(i) *Trading rights and exchange seats*

The trading rights of Hong Kong Exchanges and Clearing Limited, the B-Shares Special Seat of Shenzhen Stock Exchange and the B-Shares Tangible Trading Seat of Shanghai Stock Exchange are recognised as intangible assets on the balance sheet.

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. Any impairment arising on such goodwill is accounted for in the profit and loss account.

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.

Negative goodwill on acquisitions that occurred prior to 1st July 2001 was taken to capital reserve.

(g) Fixed assets

(i) *Investment property*

Investment property is interest in land and building in respect of which construction work and development has been completed and which is held for its investment potential, any rental income being negotiated at arm's length.

Investment property is stated in the balance sheet at its open market value which is valued annually by independent qualified valuers. Separate values are not attributed to land and building. Increases in valuation are credited to the investment property revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations and thereafter are debited to profit and loss account. Any subsequent increases are credited to profit and loss account up to the amount previously debited.

NOTES TO THE ACCOUNTS

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(g) Fixed assets (Continued)

(i) *Investment property (Continued)*

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment property revaluation reserve to the profit and loss account.

(ii) *Land and buildings*

Land and buildings are 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 buildings 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 buildings and is thereafter debited to the profit and loss account. Any subsequent increase is credited to the profit and loss account up to the amount previously debited. Upon the disposal of land and buildings, the relevant portion of the realised revaluation reserve in respect of previous valuations is transferred from the revaluation reserve to the retained profits.

(iii) *Other fixed assets*

Other fixed assets, comprising leasehold improvements, furniture and fixtures, office equipment and motor vehicles are stated at cost less accumulated depreciation and accumulated impairment losses.

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.

(iv) *Depreciation*

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

Land and buildings	2%
Leasehold improvements	Shorter of the unexpired lease terms or useful lives of 5 years
Furniture and fixtures	20%
Office equipment	20%
Motor vehicles	20%

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.

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(h) 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, in which case the impairment loss is treated as a revaluation decrease.

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, in which case the reversal of the impairment loss is treated as a revaluation increase.

(i) 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 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/premium is amortised over the period to maturity and included as interest income/expense in the profit and loss account, except for doubtful debts where such amortisation will be ceased.

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. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of marketable securities are included in trading gain/loss on investments and 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.

NOTES TO THE ACCOUNTS

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(i) Investments (Continued)

(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 included in trading gain/loss on investments and 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.

(iv) *Fair value*

Fair values for listed or quoted investments are determined based on quoted market prices less liquidity or other discounts as considered appropriate by the directors whereas fair values for unlisted or unquoted investments are estimated by the directors based on a wide range of factors such as financial position, industry and management analysis, results and expected cash flows, and transactions taken by third parties or an appraisal carried out by an independent appraiser.

(j) Provisions for bad and doubtful debts

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

(k) 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.

NOTES TO THE ACCOUNTS

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(l) Employee benefits

(i) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. An accrual is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) *Bonus plans*

The expected cost of bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus payments are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(iii) *Pension obligations*

The Group operates a defined-contribution pension scheme ("MPF Scheme") since 1st December 2000 under rules and regulations of the Hong Kong Mandatory Provident Fund ("MPF") Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group has chosen to follow the minimum statutory contribution requirement of 5% of eligible employees' relevant aggregate income which is further subject to the relevant monthly income cap of HK\$20,000 imposed by MPF Scheme Ordinance. The contributions are charged to the profit and loss account as incurred.

(iv) *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.

(m) Deferred taxation

Deferred taxation is accounted for at the current tax rate in respect of timing differences between profit/loss as computed for taxation purpose and profit/loss 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.

NOTES TO THE ACCOUNTS

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(n) 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 of subsidiaries expressed in foreign currency are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average exchange rate for the year. Such exchange differences are dealt with as a movement in reserves.

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

(o) 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.

(p) 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 and short term deposits with banks, less bank overdrafts and short term bank loans which form an integral part of the Group's cash management.

(q) Segment reporting

The Group has disclosed segment revenues and results as defined under SSAP 26 "Segment Reporting". 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 Group for capital allocation purposes are excluded from segment assets and liabilities.

NOTES TO THE ACCOUNTS

3 TURNOVER AND 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 34 to the accounts.

	2003 HK\$	2002 HK\$
Turnover		
Trading (loss)/gain on investments		
– marketable securities	(194,199,396)	86,556,818
– other investments	(3,247,165)	(287,037)
	(197,446,561)	86,269,781
Commission and fee income on		
– stock and futures brokerage	10,777,714	16,225,169
– underwriting and placement in equity capital market	12,110,203	25,319,090
– corporate finance	18,920,538	21,129,570
– asset and fund management	2,544,893	10,608,325
– loan arrangement	83,500	280,000
– miscellaneous fee income	5,228,194	4,145,834
	49,665,042	77,707,988
Interest and dividend income		
– interest from		
– bank deposits	1,299,528	4,771,574
– margin financing	12,662,793	3,962,748
– other financing	5,311,290	2,557,894
– unlisted debt securities	774,235	1,839,083
– others	5,629	273,532
– dividend from listed equity securities	7,651,764	14,844,125
	27,705,239	28,248,956
	(120,076,280)	192,226,725
Other revenues		
Rental income from land and building	711,646	422,352
Loss on disposal of an associated company	–	(326,834)
Others	–	376,546
	711,646	472,064
Total revenues	(119,364,634)	192,698,789

NOTES TO THE ACCOUNTS

4 IMPAIRMENT LOSSES

	2003 HK\$	2002 HK\$
Impairment of		
– long term investments (Note 18)	37,900,000	–
– goodwill previously taken directly to reserves (Note 28)	7,267,739	–
	45,167,739	–

5 OPERATING (LOSS)/PROFIT

Operating (loss)/profit is stated after crediting and charging the following:

	2003 HK\$	2002 HK\$
Crediting		
Negative goodwill on acquisition of a subsidiary (included in other revenues) (Note 32(b))	–	180,000
Charging		
Staff costs		
– Salaries and other allowances	53,145,664	50,092,792
– Termination benefits	408,337	234,068
– Pension costs – defined contribution plan	1,157,555	1,134,826
Amortisation of intangible assets	1,045,839	1,026,307
Provision for doubtful debts (net)	7,238,139	7,426,600
Operating leases – land and building	4,854,771	5,629,405
– office equipment	388,000	306,400
Depreciation of owned fixed assets	3,444,658	3,448,147
Net loss on disposal of fixed assets	368,968	289,507
Auditors' remuneration	1,122,090	1,304,808

6 FINANCE COSTS

	2003 HK\$	2002 HK\$
Interest on:		
– short term bank loans and overdrafts	1,543,209	116,489
– other accounts payable	1,710,467	163,973
	3,253,676	280,462

NOTES TO THE ACCOUNTS

7 TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 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.

	2003 HK\$	2002 HK\$
Hong Kong profits tax for the year	14,615	5,387,935
Over-provision in prior years	(142,560)	(1,550,188)
	(127,945)	3,837,747
Overseas taxation	69,073	44,244
Deferred taxation (credit)/charge (Note 29)	(7,500,000)	7,500,000
Share of taxation attributable to associated companies	3,674	73,806
	(7,555,198)	11,455,797

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

8 (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The (loss)/profit attributable to shareholders includes a loss of HK\$71,346,376 (2002: profit of HK\$32,394,641) which has been dealt with in the accounts of the Company.

9 DIVIDENDS

	2003 HK\$	2002 HK\$
Interim dividend, paid, of 0.33 HK cents per share* (2002: 0.37 HK cents per share*)	10,410,441	11,432,565
Final dividend, proposed, of 0.33 HK cents per share (2002: 0.67 HK cents per share*)	10,322,784	20,818,082
	20,733,225	32,250,647

At a meeting held on 14th October 2003, the directors proposed a final dividend of 0.33 HK cents per ordinary share for the year ended 30th June 2003. This proposed dividend is not recognised as a liability in these accounts but will be reflected as an appropriation of reserves (Note 28(d) and (e)) for the year ending 30th June 2004.

* These figures have been adjusted for the bonus issue as disclosed in Note 27(b).

NOTES TO THE ACCOUNTS

10 (LOSS)/EARNINGS PER SHARE

The calculation of basic and diluted (loss)/earnings per share is based on the Group's results attributable to shareholders of loss of HK\$275,795,612 (2002: profit of HK\$76,788,684).

The basic (loss)/earnings per share is calculated based on the weighted average of 3,123,217,827 (2002: 3,104,726,707) ordinary shares in issue during the year. The diluted (loss)/earnings per share is calculated based on 3,191,750,273 (2002: 3,208,682,927) ordinary shares which is the weighted average number of ordinary shares in issue during the year plus the weighted average number of 68,532,446 (2002: 103,956,220) ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

The weighted average number of ordinary shares used in the calculation of basic and diluted (loss)/earnings per share has been retrospectively adjusted for the bonus issue as disclosed in Note 27(b).

11 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:

	2003 HK\$	2002 HK\$
Fees	1,780,833	2,385,000
Salaries, commissions and other allowances	4,343,356	6,912,767
Inducement fee	3,000,000	–
Bonuses	–	2,000,000
Retirement scheme contributions	43,000	45,000
	9,167,189	11,342,767

Directors' fee disclosed above include HK\$418,333 (2002: HK\$785,000) 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 section "Share Options" in the Report of Directors. None of the directors has exercised any share options during the year.

The emoluments of the directors fell within the following bands:

Emolument bands	Number of directors	
	2003	2002
HK\$ Nil – HK\$1,000,000	7	5
HK\$1,500,001 – HK\$2,000,000	–	2
HK\$2,500,001 – HK\$3,000,000	1	–
HK\$4,000,001 – HK\$4,500,000	1	–
HK\$6,000,001 – HK\$6,500,000	–	1

NOTES TO THE ACCOUNTS

11 DIRECTORS' AND MANAGEMENT'S EMOLUMENTS (Continued)

(a) Directors' emoluments (Continued)

Details of the emoluments of the directors are as follows:

	2003 HK\$	2002 HK\$
Jonathan Koon Shum Choi	–	–
William Ka Chung Lam	787,000	1,862,000
Michael Koon Ming Choi	612,000	712,000
Mary Yuk Sin Lam	2,755,356	6,124,767
Michael Wai Chung Wu	4,215,333	625,000
Douglas Ching Shan Hui	–	–
Richard Yingneng Yin	587,500	1,859,000
Robert Tsai To Sze	160,000	160,000
Raymond Wai Yung Wu	50,000	–
	9,167,189	11,342,767

(b) Management's emoluments

The five individuals whose emoluments were the highest in the Group for the year include 1 (2002: 2) director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 4 (2002: 3) individuals during the year are as follows:

	2003 HK\$	2002 HK\$
Salaries, other allowances and benefits in kind	6,559,970	4,773,800
Bonuses	1,385,333	2,664,000
Retirement scheme contributions	48,000	36,000
	7,993,303	7,473,800

The emoluments fell within the following bands:

Emolument bands	Number of individuals	
	2003	2002
HK\$1,500,001 – HK\$2,000,000	2	–
HK\$2,000,001 – HK\$2,500,000	2	1
HK\$2,500,001 – HK\$3,000,000	–	2

NOTES TO THE ACCOUNTS

12 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 clients in relation to the requirements and other matters relating to the Rules Governing the Listing of Securities on the Stock Exchange
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
Financing	: Provision of money lending and financing services other than margin financing
Others	: Include the operations in People's Republic of 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, consolidated operating results or consolidated total assets of the Group are attributable to markets outside Hong Kong.

NOTES TO THE ACCOUNTS

12 SEGMENT REPORTING (Continued)

	For the year ended 30th June 2003						Consolidated HK\$
	Investment in securities HK\$	Brokerage and equity capital market HK\$	Corporate finance HK\$	Asset and fund management HK\$	Financing HK\$	Others HK\$	
Segmental profit and loss account							
Revenues							
Turnover	(188,997,904)	37,187,712	19,551,545	3,634,442	5,413,289	3,134,636	(120,076,280)
Inter-segment revenues	380,100	16,561,941	1,837,616	16,976,732	-	8,949,261	44,705,650
Other revenues	-	-	-	-	-	711,646	711,646
	(188,617,804)	53,749,653	21,389,161	20,611,174	5,413,289	12,795,543	(74,658,984)
Eliminations							(44,705,650)
Total revenues							(119,364,634)
Segment results	(257,966,845)	2,243,143	1,079,774	(11,527,624)	1,258,045	(18,596,630)	(283,510,137)
Share of results of associated companies	-	(18,220)	-	101,062	-	158,800	241,642
Loss before taxation							(283,268,495)
Taxation credit							7,555,198
Loss after taxation							(275,713,297)
Minority interests							(82,315)
Loss attributable to shareholders							(275,795,612)
Segment assets and liabilities							
Segment assets	332,967,753	189,814,820	6,320,750	7,675,882	73,935,238	24,027,500	634,741,943
Interests in associated companies	-	6,344,447	-	554,666	-	30,158,800	37,057,913
							671,799,856
Eliminations							(20,891,692)
Total assets							650,908,164
Segment liabilities	25,791,431	81,495,591	3,637,924	39,553,649	88,740	5,044,818	155,612,153
Unallocated liabilities							42,346,111
							197,958,264
Eliminations							(20,891,692)
Total liabilities							177,066,572
Other segmental information							
Depreciation and amortisation of tangible and intangible assets for the year	-	2,959,312	348,607	434,318	-	748,260	4,490,497
Impairment loss recognised in the profit and loss account	37,900,000	156,589	-	7,111,150	-	-	45,167,739
Capital expenditure incurred during the year	-	622,560	60,548	30,332	-	599,357	1,312,797

NOTES TO THE ACCOUNTS

12 SEGMENT REPORTING (Continued)

	For the year ended 30th June 2002						
	Investment in securities HK\$	Brokerage and equity capital market HK\$	Corporate finance HK\$	Asset and fund management HK\$	Financing HK\$	Others HK\$	Consolidated HK\$
Segmental profit and loss account							
Revenues							
Turnover	103,421,091	50,572,888	21,194,810	10,883,391	2,915,800	3,238,745	192,226,725
Inter-segment revenues	167,122	31,312,511	4,300,648	35,320,423	484	8,194,000	79,295,188
Other revenues	–	–	–	180,000	–	292,064	472,064
	103,588,213	81,885,399	25,495,458	46,383,814	2,916,284	11,724,809	271,993,977
Eliminations							(79,295,188)
Total revenues							192,698,789
Segment results	51,480,065	25,777,728	6,591,401	10,481,658	(893,090)	(5,110,810)	88,326,952
Share of results of associated companies	–	521,347	–	(45,258)	–	(647,188)	(171,099)
Profit before taxation							88,155,853
Taxation charge							(11,455,797)
Profit after taxation							76,700,056
Minority interests							88,628
Profit attributable to shareholders							76,788,684
Segment assets and liabilities							
Segment assets	580,064,145	142,047,056	6,252,314	6,886,032	95,114,837	52,467,413	882,831,797
Interests in associated companies	–	6,366,341	–	453,604	–	30,000,000	36,819,945
							919,651,742
Eliminations							(10,875,283)
Total assets							908,776,459
Segment liabilities	12,910,086	27,795,691	3,925,239	39,785,997	106,000	9,288,262	93,811,275
Unallocated liabilities							53,245,979
							147,057,254
Eliminations							(10,875,283)
Total liabilities							136,181,971
Other segmental information							
Depreciation and amortisation of tangible and intangible assets 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

13 INTANGIBLE ASSETS

	Group	
	2003 HK\$	2002 HK\$
Trading rights of Hong Kong Exchanges and Clearing Limited	6,181,591	7,108,829
B-Shares Tangible Trading Seat of Shanghai Stock Exchange	488,344	546,945
B-Shares Special Seat of Shenzhen Stock Exchange	480,000	540,000
Negative goodwill	–	–
	7,149,935	8,195,774

Movements in intangible assets are as follows:

	Negative goodwill HK\$	Trading rights and exchange seats HK\$
COST		
At 1st July 2002 and 30th June 2003	(180,000)	9,897,318
Negative goodwill recognised as income/ accumulated amortisation		
At 1st July 2002	(180,000)	1,701,544
Charge for the year	–	1,045,839
At 30th June 2003	(180,000)	2,747,383
NET BOOK VALUE		
At 30th June 2003	–	7,149,935
At 30th June 2002	–	8,195,774

NOTES TO THE ACCOUNTS

14 FIXED ASSETS

	Land and building HK\$	Investment property HK\$	Leasehold improvements HK\$	Group Furniture and fixtures HK\$	Office equipment HK\$	Motor vehicles HK\$	Total HK\$
Cost or valuation							
At 1st July 2002	12,300,000	–	4,685,969	1,989,862	9,003,303	1,647,001	29,626,135
Additions	–	–	263,028	113,513	424,072	512,184	1,312,797
Disposals	–	–	(337,138)	(15,275)	(157,880)	–	(510,293)
Revaluation	(5,300,000)	–	–	–	–	–	(5,300,000)
Transfer	(7,000,000)	7,000,000	–	–	–	–	–
At 30th June 2003	–	7,000,000	4,611,859	2,088,100	9,269,495	2,159,185	25,128,639
Accumulated depreciation							
At 1st July 2002	486,675	–	1,692,140	777,274	3,909,524	1,581,734	8,447,347
Exchange adjustment	–	–	368	–	36	–	404
Charge for the year	230,876	–	1,011,456	408,615	1,694,299	99,412	3,444,658
Disposals	–	–	(67,105)	(7,727)	(64,252)	–	(139,084)
Revaluation	(717,551)	–	–	–	–	–	(717,551)
At 30th June 2003	–	–	2,636,859	1,178,162	5,539,607	1,681,146	11,035,774
Net book value							
At 30th June 2003	–	7,000,000	1,975,000	909,938	3,729,888	478,039	14,092,865
At 30th June 2002	11,813,325	–	2,993,829	1,212,588	5,093,779	65,267	21,178,788
The analysis of cost or valuation at 30th June 2003 of the above assets is as follows:							
At cost	–	–	4,611,859	2,088,100	9,269,495	2,159,185	18,128,639
At valuation	–	7,000,000	–	–	–	–	7,000,000
	–	7,000,000	4,611,859	2,088,100	9,269,495	2,159,185	25,128,639
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

14 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 was revalued to HK\$7 million at 30th June 2003 on the basis of open market value carried out by Knight Frank Hong Kong Limited, an independent firm of chartered surveyor employed by the Group. The revaluation deficit arisen was charged to the profit and loss account.

On 30th June 2003, the property was transferred from "land and building" to "investment property" as a result of the change of its use. As at 30th June 2003, such property was pledged against the Group's bank overdraft facilities amounted to HK\$5,600,000 (2002: HK\$6,700,000). The Group had not utilised such facilities as at 30th June 2003 and 2002.

15 OTHER ASSETS

	Group	
	2003 HK\$	2002 HK\$
Statutory deposits	3,895,062	3,370,000
Others	56,198	56,198
	3,951,260	3,426,198

16 INVESTMENT IN SUBSIDIARIES

	Company	
	2003 HK\$	2002 HK\$
Unlisted shares, at cost	271,222,358	271,222,350
Amounts due from subsidiaries	276,085,850	302,830,899
Less: Provision for doubtful debts	(75,000,000)	–
	201,085,850	302,830,899
	472,308,208	574,053,249

The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment.

Particulars of the principal subsidiaries of the Group are set out in note 34.

NOTES TO THE ACCOUNTS

17 INTERESTS IN ASSOCIATED COMPANIES

	Group 2003 HK\$	2002 HK\$
Share of net assets	37,057,913	36,819,945

The following is a list of the principal associated companies of the Group as at 30th June 2003:

Name	Place of incorporation/ operations	Principal activities	Particulars of issued shares held	Interest held
KCG Capital Holdings Limited, and its subsidiary (Note)	British Virgin Islands	Investment holding	20,000,000 ordinary unlisted shares of HK\$1 each	30%
– 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	100,000 ordinary unlisted shares of HK\$0.1 each	30%

Note: During the year, the Group's 30% interest in KCG Securities Asia Limited was exchanged into 30% interest in KCG Capital Holdings Limited and KCG Securities Asia Limited thereafter became a wholly-owned subsidiary of KCG Capital Holdings Limited.

NOTES TO THE ACCOUNTS

18 LONG TERM INVESTMENTS

	Group	
	2003 HK\$	2002 HK\$
Unlisted held-to-maturity convertible bonds, at amortised cost (Note (a))	44,070,000	44,070,000
Less: Impairment	(20,000,000)	–
	24,070,000	44,070,000
Listed equity securities in Hong Kong (Note (b))	23,000,000	13,660,000
Less: Impairment	(17,900,000)	–
	5,100,000	13,660,000
Unlisted equity securities, at cost	100	100
Club debentures, at cost	1,694,000	1,144,000
	30,864,100	58,874,100
Market value of listed securities	5,100,000	9,406,500

Notes:

- (a) During the year, certain convertible bonds held by the Group were disposed of prior to their maturity in exchange for new convertible bonds issued by the same issuer. The amortised cost of the disposed convertible bonds at the date of disposal was taken by the Group to be the cost of these newly acquired convertible bonds.
- (b) These shares are stated at cost which represents the fair value on the respective dates of their transfer from marketable securities to long term investments upon the change of the Group's intention in holding such investments.

19 BANK BALANCES AND CASH

The Group maintains segregated clients' trust accounts with a licensed bank to hold clients' monies arising from normal business transactions in connection with the Group's brokerage and asset management activities. As at 30th June 2003, trust accounts not otherwise dealt with in these accounts amounted to HK\$188,680,765 (2002: HK\$64,977,141).

20 SHORT TERM BANK LOANS

As at 30th June 2003, the short term bank loans were secured by securities collateral of the Group's margin clients and the Group's marketable securities of HK\$263,530,176 and HK\$7,400,000 respectively. As at 30th June 2002, the Group's bank deposits of HK\$1,573,238 were pledged as collateral against the short term bank loans. The pledge was subsequently released upon the repayment of the bank loans in August 2002.

NOTES TO THE ACCOUNTS

21 MARKETABLE SECURITIES

	Group	
	2003 HK\$	2002 HK\$
Listed equity securities, at fair value		
– in Hong Kong	283,246,322	467,161,419
– outside Hong Kong	–	1,295,495
	283,246,322	468,456,914
Market value of listed equity securities	284,296,079	484,403,093

As at 30th June 2003, 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%

22 OTHER INVESTMENTS

	Group	
	2003 HK\$	2002 HK\$
Unlisted investments, at fair value		
– authorised unit trusts	–	5,712,963
– equity securities	12,011,617	1,780,000
– debt securities	3,457,200	4,000,000
	15,468,817	11,492,963

NOTES TO THE ACCOUNTS

23 ACCOUNTS, LOANS AND OTHER RECEIVABLES

Note	Group		Company	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Accounts and loans receivable, net of provisions				
Amounts due from brokers and clearing houses (a)	359,341	340,165	–	–
Amounts due from margin clients (b)	107,445,168	18,915,132	–	–
Amounts due from cash clients (c)	7,504,277	3,869,990	–	–
Loans receivable (d)	69,501,046	94,215,960	–	–
Others	10,603,730	34,153,860	–	–
	195,413,562	151,495,107	–	–
Less: Long term portion of loans receivable due over one year (d)	–	(21,250,000)	–	–
	195,413,562	130,245,107	–	–
Prepayments, deposits and other receivables (e)	6,602,613	27,942,869	180,000	86,002
	202,016,175	158,187,976	180,000	86,002
The ageing analysis of accounts and loans receivable is as follows:				
Current and within one month	184,686,776	121,125,187	–	–
More than one month and less than three months	8,733,155	1,095,410	–	–
More than three months	1,993,631	8,024,510	–	–
	195,413,562	130,245,107	–	–

Notes:

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

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 2003, the Group held HK\$707,376 (2002: HK\$286,541) with HKFECC in trust for clients which was not dealt with in these accounts.

- (b) Margin clients of the stock brokerage division are required to pledge securities collateral 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 securities accepted by the Group. The amounts due from margin clients are repayable on demand and bear interest at commercial rates.
- (c) 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.

NOTES TO THE ACCOUNTS

23 ACCOUNTS, LOANS AND OTHER RECEIVABLES (Continued)

- (d) Regarding the loans granted by the Group's financing division, the credit terms are set by management with reference to the financial background and the value and nature of collaterals pledged by the borrowers.
- (e) At 30th June 2002, prepayments, deposits and other receivables included HK\$2,725,131 receivable from a minority shareholder of the Group's subsidiary in the normal course of the Group's business. The amount has been repaid by the minority shareholder in August 2002.

24 AMOUNTS DUE FROM RELATED COMPANIES

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

25 SHORT POSITIONS IN MARKETABLE SECURITIES

	Group	
	2003 HK\$	2002 HK\$
Listed equity securities (Note)		
– in Hong Kong	15,688,640	–
Market value of listed equity securities	15,688,640	–

Note: In connection with a placing transaction where the Group acted as a placing agent, the issuer has granted to the Group a call option which fully cover the Group's short positions arising from the over-allotment of the underlying securities. As at 30th June 2003, the Group recognised such short positions at the lower of the fair value of the underlying securities or the consideration payable by the Group upon exercising the call option.

26 ACCOUNTS PAYABLE AND ACCRUALS

	Group		Company	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Accounts payable within one month				
Amounts due to brokers and clearing houses	19,116,073	6,261,144	–	–
Clients' accounts payable (net of bank and clearing house balances in trust accounts)	–	13,115,209	–	–
Others	42,919,884	38,228,023	–	–
	62,035,957	57,604,376	–	–
Other creditors and accruals	13,495,864	23,828,095	672,155	466,080
	75,531,821	81,432,471	672,155	466,080

NOTES TO THE ACCOUNTS

27 SHARE CAPITAL

Authorised	Ordinary shares of HK\$0.1 each	
	No. of shares	HK\$
At 1st July 2001, 30th June 2002 and 1st July 2002	2,000,000,000	200,000,000
Increase of authorised share capital (Note (a))	2,000,000,000	200,000,000
At 30th June 2003	4,000,000,000	400,000,000
Issued and fully paid		
At 1st July 2001	1,032,490,000	103,249,000
Issue of shares	2,677,787	267,779
Exercise of share options	5,466,322	546,632
At 30th June 2002 and 1st July 2002	1,040,634,109	104,063,411
Exercise of share options before bonus issue (Note (c))	410,000	41,000
	1,041,044,109	104,104,411
Bonus issue (Note (b))	2,082,088,218	208,208,822
Exercise of share options after bonus issue (Note (c))	2,714,000	271,400
At 30th June 2003	3,125,846,327	312,584,633

Notes:

- (a) Pursuant to a resolution passed on a special general meeting held on 25th March 2003 ("SGM"), the authorised share capital of the Company was increased to HK\$400,000,000 by the creation of 2,000,000,000 ordinary shares of HK\$0.1 each.
- (b) Pursuant to a resolution passed on the SGM, a bonus issue on the basis of 2 bonus shares for every 1 share held by the shareholders whose names appeared on the Register of Members at the close of business on 24th March 2003 was approved. On 28th March 2003, the Company issued 2,082,088,218 new shares of HK\$0.1 each pursuant to the bonus issue. These new shares were credited as fully paid by way of capitalisation of HK\$168,496,352 and HK\$39,712,470 from the Company's share premium account and contributed surplus account respectively.
- (c) During the year, an aggregate of 3,124,000 ordinary shares were issued by the Company to the grantees upon their exercising of share options. 410,000 shares and 2,714,000 shares were issued before and after the bonus issue as detailed in Note (b) above respectively. The total cash proceeds received by the Company was HK\$920,176. These shares rank pari passu with the shares existing at that time.

Further details of the share options granted by the Company to the Group's employees and directors during the year and outstanding as at 30th June 2003 are disclosed under the section "Share options" in the Report of the Directors.

NOTES TO THE ACCOUNTS

28 RESERVES

	Share premium HK\$	Special reserve HK\$ (Note (a))	Capital reserve on consolidation HK\$ (Note (b))	Exchange reserve HK\$	Retained profits HK\$	Total HK\$
At 1st July 2001	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
– issue of shares	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	–	–	–	–	(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
At 1st July 2002	168,250,352	39,800,000	55,376,772	43	403,690,742	667,117,909
Share premium arising on exercise of share options	607,776	–	–	–	–	607,776
Bonus issue (Note 27(b))	(168,496,352)	–	–	–	(39,712,470)	(208,208,822)
Exchange differences on translation of accounts of overseas subsidiaries	–	–	–	(3,172)	–	(3,172)
Loss attributable to shareholders	–	–	–	–	(275,795,612)	(275,795,612)
Impairment of goodwill previously taken directly to reserves (Note 4)	–	–	7,267,739	–	–	7,267,739
Dividends paid						
– 2002, final (Note (c))	–	–	–	–	(20,819,082)	(20,819,082)
– 2003, interim	–	–	–	–	(10,410,441)	(10,410,441)
					(Note (d))	
At 30th June 2003	361,776	39,800,000	62,644,511	(3,129)	56,953,137	159,756,295
Attributable to:						
– the Company and its subsidiaries	361,776	39,800,000	62,644,511	(3,129)	56,946,200	159,749,358
– associated companies	–	–	–	–	6,937	6,937
At 30th June 2003	361,776	39,800,000	62,644,511	(3,129)	56,953,137	159,756,295

NOTES TO THE ACCOUNTS

28 RESERVES (Continued)

	Contributed surplus HK\$ (Note (e))	Share premium HK\$	Company Retained profits/ (accumulated losses) HK\$	Total HK\$
At 1st July 2001	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
– issue of shares	–	4,284,459	–	4,284,459
Profit for the year	–	–	32,394,641	32,394,641
Dividends paid				
– 2001, final	–	–	(20,671,380)	(20,671,380)
– 2002, interim	–	–	(11,432,565)	(11,432,565)
At 30th June 2002 and 1st July 2002	271,022,350	168,250,352	(Note (d)) 30,410,992	469,683,694
Share premium arising on exercise of share options	–	607,776	–	607,776
Bonus issue (Note 27(b))	(39,712,470)	(168,496,352)	–	(208,208,822)
Loss for the year	–	–	(71,346,376)	(71,346,376)
Dividends paid				
– 2002, final (Note (c))	–	–	(20,819,082)	(20,819,082)
– 2003, interim	–	–	(10,410,441)	(10,410,441)
At 30th June 2003	231,309,880	361,776	(Note (d)) (72,164,907)	159,506,749

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 on consolidation of the Group represents goodwill and negative goodwill arising from acquisitions prior to 1st July 2001. As at 30th June 2003, the balance comprises goodwill of HK\$774,376 (2002: HK\$8,042,115) and negative goodwill of HK\$63,418,887 (2002: HK\$63,418,887).
- On 13th December 2002, final dividend for the year ended 30th June 2002 of HK\$0.02 per ordinary share totalling HK\$20,819,082 was paid to shareholders. The amount comprised prior year's proposed final dividend of HK\$20,818,082 and additional final dividend of HK\$1,000 paid for those shares issued on share options exercised during the intervening period between 7th October 2002 and 26th November 2002.

NOTES TO THE ACCOUNTS

28 RESERVES (Continued)

(d) Retained profits/(accumulated losses) represent:

	Group		Company	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
2003 proposed final dividend (Note (e))	10,322,784	–	–	–
2002 proposed final dividend	–	20,818,082	–	20,818,082
Others	46,630,353	382,872,660	(72,164,907)	9,592,910
	56,953,137	403,690,742	(72,164,907)	30,410,992

(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 in accordance with Section 54 thereof. The Company has capitalised part of the contributed surplus account for the bonus issue (Note 27(b)) undertaken during the year.

At 30th June 2003, the Company's contributed surplus represented:

	2003 HK\$	2002 HK\$
2003 proposed final dividend (Note (d))	10,322,784	–
Others	220,987,096	271,022,350
	231,309,880	271,022,350

29 DEFERRED TAXATION

	Group	
	2003 HK\$	2002 HK\$
At 1st July	8,152,779	652,779
Transfer (to)/from profit and loss account (Note 7)	(7,500,000)	7,500,000
At 30th June	652,779	8,152,779
Provided for in respect of:		
Accelerated depreciation allowances	652,779	652,779
Unrealised trading gain in investments	–	7,500,000
	652,779	8,152,779

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

Potential deferred tax assets on unrealised trading loss in investments and estimated tax losses amounted to an aggregate of HK\$47 million (30th June 2002: HK\$24 million), which are not recognised in the accounts as it is uncertain as to whether these assets are recoverable in the foreseeable future.

NOTES TO THE ACCOUNTS

30 CONTINGENT LIABILITIES

	Company	
	2003 HK\$	2002 HK\$
Guarantees for banking facilities to subsidiaries	252,200,000	237,200,000

31 COMMITMENTS UNDER OPERATING LEASES

(a) As lessee

As at 30th June 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings		Office equipment	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Not later than 1 year	5,977,941	4,639,950	408,000	348,000
Later than 1 year and not later than 5 years	10,953,329	17,059,270	1,496,000	1,392,000
Later than 5 years	–	–	–	232,000
	16,931,270	21,699,220	1,904,000	1,972,000

The lease terms for land and buildings exceeding 3 years usually contain clauses allowing rental reviews after the lapse of certain initial periods to reflect subsequent changes in market rentals. The operating lease commitments disclosed above are based on the rental agreed between the Group and the landlord as at 30th June 2003 and have not taken into account the effect of the aforementioned rental review clauses.

Subsequent to the balance sheet date, the Group has agreed with the landlord to reduce the monthly operating lease expenses for the land and buildings pursuant to the aforementioned rental review arrangement. The Group's future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as at 30th June 2003, as adjusted for the revised terms, are as follows:

	2003 HK\$
Not later than 1 year	3,276,328
Later than 1 year and not later than 5 years	6,453,329
	9,729,657

NOTES TO THE ACCOUNTS

31 COMMITMENTS UNDER OPERATING LEASES (Continued)

(b) As lessor

As at 30th June 2003, the Group had future minimum lease payments receivable under non-cancellable operating lease as follows:

	2003 HK\$	2002 HK\$
Not later than 1 year	262,800	751,968
Later than 1 year and not later than 5 years	350,400	93,996
	613,200	845,964

32 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating (loss)/profit to net cash outflow from operations

	2003 HK\$	2002 HK\$
Operating (loss)/profit	(280,256,461)	88,607,414
Interest income	(20,053,475)	(13,404,831)
	(300,309,936)	75,202,583
Interest received	20,053,475	13,404,831
Amortisation of intangible assets	1,045,839	1,026,307
Depreciation	3,444,658	3,448,147
Deficit on revaluation of land and building	4,582,449	–
Loss on disposal of long term investments	7,785,142	–
Impairment losses	45,167,739	–
Negative goodwill	–	(180,000)
Loss on disposal of an associated company	–	326,834
Net loss on disposal of fixed assets	368,968	289,507
Provision for doubtful debts (net)	7,238,139	7,426,600
	(210,623,527)	100,944,809
Operating (loss)/profit before working capital changes		
Increase in other assets	(525,062)	(85,000)
Decrease/(increase) in marketable securities	162,210,592	(196,668,542)
Increase in other investments	(3,975,854)	(8,492,963)
Increase in accounts, loans and other receivables	(29,816,298)	(27,702,653)
Increase in amounts due from related companies	(45,109)	(3,937)
Decrease in accounts payable and accruals	(5,900,650)	(67,357,216)
Increase in short positions in marketable securities	15,688,640	–
Effect of foreign exchange changes	2,373	(13,625)
	(72,984,895)	(199,379,127)

NOTES TO THE ACCOUNTS

32 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Acquisition and disposal of subsidiaries

The Group has not acquired or disposed of subsidiaries in the current year. Details of the net assets of subsidiaries acquired/disposed of by the Group in the prior year and the cash flows arising are disclosed below:

	2002	
	Acquisition HK\$	Disposal HK\$
Fixed assets	61,319	17,448
Long term investments	450,000	–
Bank balances and cash	359,825	1,162,348
Accounts receivable	477,852	786,000
Accounts payable	(405,295)	(17,750)
Minority interest	–	(974,023)
Net assets acquired/disposed of	943,701	974,023
Negative goodwill	(180,000)	–
	<u>763,701</u>	<u>974,023</u>
Satisfied by:		
Cash	763,701	–
Interest retained as an associated company	–	974,023
	<u>763,701</u>	<u>974,023</u>

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

	2002	
	Acquisition HK\$	Disposal HK\$
Consideration (paid)/received in cash	(763,701)	–
Bank balances and cash acquired/(disposed of)	359,825	(1,162,348)
Net cash outflow in respect of the acquisition/disposal of subsidiaries	<u>(403,876)</u>	<u>(1,162,348)</u>

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.

NOTES TO THE ACCOUNTS

32 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(c) Major non-cash transactions

During the year, the Company issued 2,082,088,218 new shares of HK\$0.1 each pursuant to the bonus issue as disclosed in Note 27(b). In addition, the Group has disposed of certain convertible bonds in exchange for new convertible bonds issued by the same issuer (Note 18(a)) and transferred marketable securities of HK\$23,000,000 to long term investments upon the change of the Group's intention in holding such investments (Note 18(b)).

In the prior year, part of the consideration for the purchase of investments 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.

33 RELATED PARTY TRANSACTIONS

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.

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 2003 HK\$	2002 HK\$
Brokerage commission earned on securities dealing	(a)	255,099	639,640
Interest income earned from securities accounts maintained by related parties with the Group	(a)	164,705	627,922
Financial advisory, placing and underwriting fees received	(b)	170,000	1,030,000
Common office expenses recharged	(c)	433,135	1,045,995
Rental income earned	(d)	426,681	562,018
Consultancy and management fees received	(e)	1,044,000	164,000
Secretarial fee earned	(f)	250,940	161,400
Consultancy fee paid	(g)	(468,000)	(450,000)
Purchase of fixed assets	(h)	(836,281)	(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 a fellow subsidiary and an associated company of one of the Group's director. The fees are charged at rates similar to those normally charged to third party clients.

NOTES TO THE ACCOUNTS

33 RELATED PARTY TRANSACTIONS (Continued)

Notes:

- (c) 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 primarily based on the percentage of floor area occupied by each company.
- (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. Such agreement was terminated during the current year.
- (e) Consultancy and management fees were received from an associated company for the provision of management and administrative services. The fees mainly comprised a fixed monthly charge as agreed between the parties involved.
- (f) Secretarial fee was received from associated companies, fellow subsidiaries and associated companies of one of the Group's director for corporate secretarial services provided. The fee was charged at rates similar to those normally charged to third party clients.
- (g) Consultancy fee in relation to the provision of information technology advisory services was paid to fellow subsidiaries at a rate mutually agreed between the parties involved.
- (h) The Group has acquired certain fixed assets from fellow subsidiaries at considerations which were either based on the net book value of the fixed assets at the date of acquisition or at rates similar to those normally charged to third party clients.

34 PARTICULARS OF SUBSIDIARIES

The following is a list of the significant subsidiaries as at 30th June 2003:

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%
E-Multiple Investments Limited	British Virgin Islands	Ordinary share US\$1	Securities investment	–	100%
Festival Development Limited	British Virgin Islands	Ordinary share US\$1	Investment holding	–	100%
Joy Legend Investments Limited	British Virgin Islands	Ordinary share US\$1	Securities investment	–	100%

NOTES TO THE ACCOUNTS

34 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 Asset Management Limited	British Virgin Islands	Ordinary share US\$1	Provision of consultancy and asset management services	–	100%
Kingsway Capital Limited	Hong Kong	Ordinary shares HK\$10,779,002	Provision of financial advisory services	–	100%
Kingsway China Holdings Limited	British Virgin Islands	Ordinary share US\$1	Investment holding	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\$47,000,000	Fund management	–	100%
Kingsway – HIA Investment Products Limited	Hong Kong	Ordinary shares HK\$5,744,000	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%

NOTES TO THE ACCOUNTS

34 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 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 Financial Services Group Limited (Formerly known as 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\$38,750,000	Investment holding	100%	–

* Companies not audited by PricewaterhouseCoopers. The aggregate total assets and loss before taxation of these subsidiaries contributed to approximately 14% and 9% of the Group's total assets and loss before taxation respectively.

NOTES TO THE ACCOUNTS

35 SUBSEQUENT EVENT

As at 30th June 2003, the Group had certain investments in unlisted shares previously acquired from a fellow subsidiary which were stated at a fair value of HK\$11,700 (which was also the acquisition cost to the Group) as estimated by the directors, taking into account the issuer's underlying business and operations, its financial positions including operating and accumulated losses and net asset value, and the uncertainty of its future income stream and cash flows. Subsequent to 30th June 2003, these shares were listed on the SEHK and the Group's holding in such investments is subject to a lock-up period of 12 months from the date of listing. Based on the subsequent trading price up to the date of this report, the value of the Group's holding in these shares (without taking into consideration the lock-up period restriction) ranged from approximately HK\$23 million to HK\$40 million.

36 ULTIMATE HOLDING COMPANY

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

37 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 14th October 2003.