

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 2003 ("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 new SSAP 12 "Income Taxes" issued by the HKSA which is effective for accounting periods commencing on or after 1st January 2003. The changes to the Group's accounting policy and the effect of adopting this new policy are set out below:

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior years, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the new SSAP 12 represents a change in accounting policy which requires retrospective application. However the effect of this change in accounting policy is not material to the Group's results in prior periods and therefore the opening balances and comparative figures presented herein have not been restated.

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 underwriter and placing agent in the equity capital market
Corporate finance	:	Provision of financial advisory services in relation to the requirements and other matters relating to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange.
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 in Hong Kong
Financing	:	Provision of money lending and financing services other than margin financing
Others	:	Include the operations in People's Republic of China ("PRC") and provision of corporate services

2 SEGMENT INFORMATION (Continued)

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 and consolidated total assets of the Group are attributable to markets outside Hong Kong.

	Six months ended 31/12/2003						Consolidated HK\$
	Investment in securities HK\$	Brokerage and equity capital market HK\$	Corporate finance HK\$	Asset and fund management HK\$	Financing HK\$	Others HK\$	
Revenues							
Turnover	126,104,527	33,015,201	6,395,310	1,572,036	1,479,979	554,035	169,121,088
Inter-segment revenues	283	1,832,521	3,008,000	14,754,664	-	4,613,885	24,209,353
Other revenues	-	-	-	-	-	247,885	247,885
	126,104,810	34,847,722	9,403,310	16,326,700	1,479,979	5,415,805	193,578,326
Eliminations							(24,209,353)
Total revenues							169,368,973
Segment results	92,085,431	8,236,388	138,049	11,218,856	1,312,021	(6,341,286)	106,649,459
Share of results of associated companies	-	461,512	-	(282,543)	-	455,861	634,830
Profit before taxation							107,284,289

	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
	(120,918,498)	29,805,780	14,536,437	12,310,788	3,031,219	6,831,737	(54,402,537)
Eliminations							(25,586,243)
Total revenues							(79,988,780)
Segment results	(136,623,672)	5,875,200	3,098,156	(1,421,180)	2,673,482	(1,892,961)	(128,290,975)
Share of results of associated companies	-	(106,669)	-	104,058	-	(576,044)	(578,655)
Loss before taxation							(128,869,630)

3 PROFIT/(LOSS) BEFORE TAXATION

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

	Six months ended	
	31/12/2003 HK\$	31/12/2002 HK\$
Net gain/(loss) on investment in marketable securities (Note 8(b))	115,829,784	(124,146,947)
Net gain/(loss) on other investments	6,748,740	(1,247,165)
Dividend income from		
– listed securities	1,957,944	3,823,338
– unlisted securities	1,170,000	–
Rental income from land and buildings	222,842	336,164
Interest income from unlisted debt securities	241,815	382,834
Staff costs	(30,166,579)	(25,687,920)
Operating leases – land and buildings	(1,175,766)	(2,479,005)
Depreciation of owned fixed assets	(1,536,536)	(1,734,952)
Amortisation of intangible assets	(533,829)	(522,920)
Provision for doubtful debts	–	(418,429)
Interest expenses on		
– bank loans and overdrafts	(711,364)	(833,779)
– others	(512,200)	(862,495)
Net loss on disposal of fixed assets	(403,250)	(287,639)

4 TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit for the period. In 2003, the Hong Kong profits tax rate was increased to 17.5% with effect from the 2003/2004 year of assessment. Overseas taxation is charged at the appropriate current rates of taxation ruling in the relevant country. The amount of taxation charged to the consolidated profit and loss account represents:

	Six months ended	
	31/12/2003 HK\$	31/12/2002 HK\$
Current tax:		
– Hong Kong profits tax	2,000,000	1,900,000
– Underprovision in prior periods	210,909	–
– Overseas taxation	–	51,612
	2,210,909	1,951,612
Deferred taxation	(261,649)	–
Share of taxation attributable to associated companies	–	3,674
Taxation charge	1,949,260	1,955,286

Deferred income tax assets are recognised for tax losses carry forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. As at 31st December 2003, the Group had unrecognised unrealised trading loss in investments and estimated tax losses amounted to an aggregate of approximately HK\$234 million (30th June 2003: HK\$ 269 million) to carry forward against future taxable income. These losses have no expiry date.

5 DIVIDENDS

(a) Dividends attributable to the interim period

	Six months ended	
	31/12/2003 HK\$	31/12/2002 HK\$
Interim dividend of 0.33 HK cents (2002: 0.33 HK cents*) per ordinary share	10,324,005	10,409,941

* This figure had been adjusted for the bonus issue on 28th March 2003, details of which were disclosed in the last audited accounts.

At a meeting held on 23rd February 2004, the directors declared an interim dividend of 0.33 HK cents per ordinary share, totalling HK\$10,324,005 (Note 14) based on the number of shares in issue at 23rd February 2004. 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 2004.

(b) Final dividend attributable to the financial year ended 30th June 2003

At a meeting held on 14th October 2003, the directors proposed a final dividend of 0.33 HK cents per ordinary shares for the year ended 30th June 2003, totalling HK\$10,322,784 (Note 14) based on the number of shares in issue at 14th October 2003. On 12th December 2003, a final dividend of HK\$10,323,114 was paid to shareholders and has been reflected as an appropriation of retained profits in the current period.

6 EARNINGS/(LOSS) PER SHARE

The calculation of basic and diluted earnings/(loss) per share is based on the Group's profit attributable to shareholders of HK\$105,335,029 (2002: loss of HK\$130,902,742) for the interim period.

The basic earnings/(loss) per share is calculated based on the weighted average of 3,127,457,994 (2002: 3,122,617,327) ordinary shares in issue during the period. The weighted average number of ordinary shares used in the calculation of basic loss per share for the six months ended 31st December 2002 has been retrospectively adjusted for the bonus issue on 28th March 2003, details of which were disclosed in the last audited accounts.

For the six months ended 31st December 2003, the diluted earnings per share is calculated based on 3,175,746,774 ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average number of 48,288,780 ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised. No diluted loss per share is presented for the six months ended 31st December 2002 as the deemed exercise of the outstanding share options of the Company would have an anti-dilutive effect.

7 FIXED ASSETS

As at 31st December 2003, the Group's investment property with a carrying value of HK\$7,000,000 (30th June 2003: HK\$7,000,000) has been pledged as security for the Group's bank overdraft facilities.

8 LONG TERM INVESTMENTS

	31/12/2003 HK\$	30/6/2003 HK\$
Unlisted held-to-maturity convertible bonds, at amortised cost (Note (a))	40,070,000	44,070,000
Less: Impairment	(30,000,000)	(20,000,000)
	10,070,000	24,070,000
Listed equity shares in Hong Kong (Note (b))	–	23,000,000
Less: Impairment	–	(17,900,000)
	–	5,100,000
Unlisted equity shares, at cost	100	100
Club debentures, at cost	1,694,000	1,694,000
	11,764,100	30,864,100

Notes:

- (a) During the period, 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 Group has received incentives in the form of cash and listed securities from the issuer for the disposal. The amortised cost of the disposed convertible bonds at the date of disposal net of the cash incentives received were considered by the Group to be the cost of those newly acquired convertible bonds. No value has been attributed to the listed securities received in these accounts as those listed securities have been suspended from trading for over 6 months.
- (b) During the period, these shares were transferred from long term investments to marketable securities upon a change of intention. It is the Group's policy, which was adopted during the period, of holding all listed investments as marketable securities unless otherwise decided upon by the Board. In accordance with the Group's accounting policy, marketable securities are stated at fair value at the balance sheet date. The net unrealised gains or losses arising from the change in fair value are included in trading gain/loss on investments and recognised in the profit and loss account. As a result of the aforementioned transfer, the Group has recorded a net gain on investment in marketable securities of HK\$24,400,000 for the six months ended 31st December 2003 (Note 3).

9 BANK BALANCES AND CASH

The Group maintains segregated clients' trust accounts with licensed banks to hold clients' monies arising from normal business transactions in connection with the Group's brokerage and asset management activities. As at 31st December 2003, trust accounts not otherwise dealt with in these interim accounts amounted to HK\$232,336,149 (30th June 2003: HK\$188,680,765).

10 MARKETABLE SECURITIES

- (a) At 31st December 2003, the Group's marketable securities included certain listed investments which were subject to a lock-up period of approximately 8 months. The fair value of these investments as estimated by the directors was HK\$18.6 million at 31st December 2003.
- (b) At 31st December 2003, the Group's marketable securities of HK\$27,900,000 (30th June 2003: HK\$7,400,000) were pledged as security against the Group's short term bank loans and banking facilities.
- (c) The Group also pledged securities collateral of the Group's margin clients (Note 11(b)) amounting to HK\$263,530,176, which were not dealt with in these accounts, as security against the Group's short term bank loans at 30th June 2003. There was no bank loan outstanding as at 31st December 2003.

11 ACCOUNTS, LOANS AND OTHER RECEIVABLES

	Note	31/12/2003 HK\$	30/6/2003 HK\$
Accounts and loans receivable, net of provisions:			
Amounts due from brokers and clearing houses	(a)	57,267,134	359,341
Amounts due from margin clients	(b)	82,479,812	107,445,168
Amounts due from cash clients	(c)	9,140,458	7,504,277
Loan receivables	(d)	35,200,361	69,501,046
Others		7,393,198	10,603,730
		191,480,963	195,413,562
Prepayments, deposits and other receivables		18,251,964	6,602,613
		209,732,927	202,016,175
		31/12/2003 HK\$	30/6/2003 HK\$
The ageing analysis of accounts and loans receivable is as follows:			
Current and within one month		170,832,673	184,686,776
More than one month and less than three months		16,514,140	8,733,155
More than three months		4,134,150	1,993,631
		191,480,963	195,413,562

- (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 ordinary course of business of dealing in options and futures contracts in trust with HKFE Clearing Corporation Limited ("HKFECC"). At 31st December 2003, the Group held HK\$832,507 (30th June 2003: HK\$707,376) 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 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.
- (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.
- (d) 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 ACCOUNTS PAYABLE AND ACCRUALS

	31/12/2003 HK\$	30/6/2003 HK\$
Accounts payable within one month		
Amounts due to brokers and clearing houses	–	19,116,073
Clients' accounts payable (net of bank and clearing house balances in trust accounts)	49,735,748	–
Others	12,077,263	42,919,884
	61,813,011	62,035,957
Other creditors and accruals	13,047,060	13,495,864
	74,860,071	75,531,821

13 SHARE CAPITAL

	Ordinary shares of HK\$0.1 each	
	No. of shares	HK\$
Authorised		
At 1st July 2002	2,000,000,000	200,000,000
Increase of authorised share capital	2,000,000,000	200,000,000
At 30th June 2003 and 31st December 2003	4,000,000,000	400,000,000
Issued and fully paid		
At 1st July 2002	1,040,634,109	104,063,411
Exercise of share options before bonus issue	410,000	41,000
	1,041,044,109	104,104,411
Bonus issue	2,082,088,218	208,208,822
Exercise of share options after bonus issue	2,714,000	271,400
	3,125,846,327	312,584,633
At 30th June and 1st July 2003	2,370,000	237,000
Exercise of share options		
At 31st December 2003	3,128,216,327	312,821,633

During the six months ended 31st December 2003, an aggregate of 2,370,000 share options were exercised to subscribe for 2,370,000 ordinary shares of the Company. The total cash proceeds received by the Company was HK\$563,721. Details of the share options outstanding as at 31st December 2003 are disclosed under the section "Share Options" on page 18.

14 RETAINED PROFITS

	31/12/2003 HK\$	30/6/2003 HK\$
2004 interim dividend (Note 5(a))	10,324,005	—
2003 proposed final dividend (Note 5(b))	—	10,322,784
Others	141,641,047	46,630,353
	151,965,052	56,953,137

15 COMMITMENTS

(a) Commitments under operating leases

(i) As lessee

As at 31st December 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings		Office equipment	
	31/12/2003 HK\$	30/6/2003 HK\$	31/12/2003 HK\$	30/6/2003 HK\$
Not later than 1 year	3,504,603	5,977,941	408,000	408,000
Later than 1 year and not later than 5 years	4,759,045	10,953,329	1,156,000	1,496,000
	8,263,648	16,931,270	1,564,000	1,904,000

The comparative figures disclosed above for land and buildings have not taken into account the effect of the rental review completed in the current period, details of which are disclosed in the last audited account.

15 COMMITMENTS (Continued)

(a) Commitments under operating leases (continued)

(ii) As lessor

As at 31st December 2003, the Group had future aggregate minimum lease payments receivable under non-cancellable operating leases as follows:

	Land and buildings	
	31/12/2003 HK\$	30/6/2003 HK\$
Not later than 1 year	350,400	262,800
Later than 1 year and not later than 5 years	146,000	350,400
	496,400	613,200

(b) Other commitments

- (i) On 26th November 2003, a subsidiary of the Group has entered into a legally binding agreement with third parties to form a strategic alliance regulated by the China Securities Regulatory Commission ("CSRC") in the PRC for providing fund management services and/or setting up unit trusts to PRC investors who are interested in the PRC market. Pursuant to the agreement, a joint venture company ("JV Company"), in which the Group will hold 33% interest, is intended to be formed among the aforementioned parties. The Group will contribute US dollars equivalent to RMB 33 million (approximately HK\$31.4 million) as capital injection into the JV Company. The capital injection is subject to the CSRC granting an approval to the commencement of the JV Company which is yet to be obtained at the approval date of these interim accounts.
- (ii) As at 31st December 2003, a subsidiary of the Group had committed to provide financing of not more than HK\$40 million (30th June 2003: HK\$Nil) to the offeror of a general offer in Hong Kong. The commitments were released subsequently in February 2004 after the completion of the deal.

16 RELATED PARTY TRANSACTIONS

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

		Six months ended	
	Note	31/12/2003 HK\$	31/12/2002 HK\$
Brokerage commission earned on securities dealing	(a)	216,093	134,538
Common office expenses recharged	(b)	131,492	222,324
Consultancy and management fee received	(c)	744,000	492,000
Consultancy fee paid	(d)	–	(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) Consultancy and management fee were received from an associated company at an agreed rate in respect of the asset management services provided.
- (d) 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. The service arrangement has been discontinued during the current interim period.