

## NOTES TO THE CONDENSED ACCOUNTS

### 1. Basis of preparation and accounting policies

The unaudited condensed consolidated accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice 25, "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants. These condensed accounts should be read in conjunction with the 2003 annual accounts.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31st December 2003.

### 2. Turnover, other revenues and segment information

The Company is an investment holding company. The Group is principally engaged in the provision of leveraged foreign exchange trading and broking services, securities broking, commodities and futures broking, provision of corporate financial advisory services, fund management, financial planning and insurance broking, and trading and broking of precious metal contracts. Total revenues recognised during the period are as follows:

	<b>Six months ended 30th June</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Turnover		
Fees and commission	<b>39,925</b>	36,552
Net revenue from		
– foreign currency option trading	<b>5,326</b>	6,164
– bullion trading	<b>4,148</b>	124
Net premium income from		
– foreign currency option broking	<b>96</b>	1,529
– insurance brokerage	<b>137</b>	119
Swap interest and foreign exchange trading revenue	<b>26,238</b>	19,377
Interest income	<b>2,971</b>	3,503
Consultancy fee income	–	195
Underwriting commission	<b>162</b>	71
Management fee and subscription fee income	<b>569</b>	444
	<b>79,572</b>	68,078
Other revenues		
Dividend income from listed securities	<b>222</b>	62
Other income including exchange gains	<b>605</b>	285
	<b>827</b>	347
Total revenues	<b>80,399</b>	68,425

**2. Turnover, other revenues and segment information (Continued)*****Primary reporting format – Business Segments***

The business of the Group was organised into the following segments during the period:

1. Leveraged foreign exchange trading/broking – provision of dealing and broking in leveraged forex trading services on the world's major currencies including online broking services
2. Securities broking – provision of broking services in securities, equity linked products, unit trusts and stock options traded in Hong Kong and selected overseas markets and margin financing services to those brokerage clients
3. Commodities and futures broking – provision of broking services in commodities and futures contracts traded in Hong Kong and selected overseas markets
4. Corporate finance – provision of corporate finance and advisory services to companies listed in Hong Kong
5. Asset management – managing private funds and acting as an investment manager for investment companies
6. Financial planning/insurance broking – acting as an agent for the sale of savings plans, unit trusts, general and life insurance
7. Precious metal contracts trading/broking – provision of dealing and broking trading services on selected precious metals

There was no significant transaction between the business segments.

***Secondary reporting format – Geographical Segments***

Based on the geographical location of the clients, the Group's business could be divided into four main geographical areas:

1. Hong Kong – mainly consists of retail clients
2. China – mainly consists of retail clients
3. New Zealand – mainly consists of corporate clients
4. Other countries – principally consists of clients from a number of countries or regions including Japan, Singapore, and United Kingdom, etc

There was no significant transaction between the geographical segments.

## 2. Turnover, other revenues and segment information (Continued)

### Primary reporting format – Business Segments

	Six months ended 30th June 2004								
	HK\$'000								
	Leveraged for foreign exchange trading/ broking	Securities and futures broking	Commodities and futures broking	Corporate finance	Asset management	Financial planning/ insurance broking	Precious metal contracts trading/ broking	Unallocated	Total
Turnover	40,696	11,898	4,944	3,215	569	13,557	4,657	36	79,572
Segment results	6,153	(94)	(811)	(557)	(185)	905	2,529	(2,106)	5,834
Operating profit									5,834
Finance costs									(741)
									5,093
Share of profit of associated companies									9,370
Profit before taxation									14,463
Taxation									(5,040)
Profit before minority interest									9,423
Minority interest									87
Profit attributable to shareholders									9,510

	Six months ended 30th June 2003								
	HK\$'000								
	Leveraged foreign exchange trading/ broking	Securities and futures broking	Commodities and futures broking	Corporate finance	Asset management	Financial planning/ insurance broking	Precious metal contracts trading/ broking	Unallocated	Total
Turnover	37,098	7,396	6,312	4,118	445	12,013	512	184	68,078
Segment results	6,963	(2,941)	(316)	41	(321)	980	(944)	(787)	2,675
Operating profit									2,675
Finance costs									(427)
									2,248
Share of profit of an associated company									593
Profit before taxation									2,841
Taxation									(787)
Profit attributable to shareholders									2,054

2. **Turnover, other revenues and segment information (Continued)**

*Secondary reporting format – Geographical Segments*

	<b>Turnover</b>	
	<b>Six months ended 30th June</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Hong Kong	<b>57,138</b>	50,770
China	<b>10,114</b>	9,891
New Zealand	<b>6,311</b>	4,610
Other countries	<b>6,009</b>	2,807
	<b>79,572</b>	68,078

3. **Operating profit**

Operating profit is stated after crediting and charging the following:

	<b>Six months ended 30th June</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
<i>Crediting</i>		
Write-back on provision for doubtful debts	–	960
<i>Charging</i>		
Amortisation of trading rights	<b>271</b>	437
Amortisation of goodwill	<b>303</b>	–
Auditors' remuneration	<b>667</b>	583
Bad debts written off	–	7
Depreciation of fixed assets	<b>1,773</b>	1,678
Interest paid to clients on margin deposits	<b>1</b>	2
Legal and professional fee	<b>1,069</b>	476
Loss on disposal of fixed assets	<b>63</b>	–
Rent and rates	<b>4,512</b>	4,462
Staff costs	<b>19,453</b>	20,462
Unrealised loss on investment in securities held for trading purposes	<b>42</b>	7
Commission and other rebates	<b>30,545</b>	26,727

**4. Staff costs**

	<b>Six months ended 30th June</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Salaries and allowances	<b>18,925</b>	19,869
Mandatory provident fund – defined contribution plans	<b>528</b>	593
	<b>19,453</b>	20,462

**5. Taxation**

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the six months ended 30th June 2004. Taxation on overseas profit has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the consolidated income statement represents:

	<b>Six months ended 30th June</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Current taxation:		
– Hong Kong profits tax	<b>1,497</b>	970
Deferred taxation relating to the origination and reversal of temporary differences	<b>222</b>	(248)
	<b>1,719</b>	722
Share of taxation attributable to associated companies in overseas	<b>3,321</b>	65
Taxation charge	<b>5,040</b>	787

**5. Taxation (Continued)**

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	<b>Six months ended 30th June</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Profit before taxation (excluding share of profit of associated companies)	<b>5,093</b>	2,248
Calculated at a taxation rate of 17.5% (2003: 17.5%)	<b>891</b>	393
Tax effect of income not subject to taxation	<b>(392)</b>	(555)
Tax effect of expenses not deductible for taxation purposes	<b>998</b>	1,207
Utilisation of previously unrecognised tax losses	<b>–</b>	(75)
Deferred taxation arising from temporary timing difference	<b>222</b>	(248)
	<b>1,719</b>	722
Share of taxation attributable to associated companies in overseas	<b>3,321</b>	65
Taxation charge	<b>5,040</b>	787

**6. Dividends**

	<b>Six months ended 30th June</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Final, paid, of HK\$0.025 per ordinary share (2003: nil)	<b>9,778</b>	–

At a meeting held on 19th April 2004, the directors proposed a final dividend of HK\$0.025 per ordinary share for the year ended 31st December 2003, which was paid on 3rd June 2004 and has been reflected as an appropriation of retained earnings for the six months ended 30th June 2004.

## 7. Earnings per share

The calculation of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of HK\$9,510,539 (2003: HK\$2,054,203).

The basic earnings per share is based on the weighted average number of 391,130,000 (2003: 391,130,000) ordinary shares in issue during the six months ended 30th June 2004. The diluted earnings per share for the six months ended 30th June 2004 is based on 391,905,870 (2003: 391,877,274) ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average number of 775,870 (2003: 747,274) ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

## 8. Capital expenditure

	Stock Exchange trading rights HK\$'000	Futures Exchange trading right HK\$'000	Membership of The Chinese Gold & Silver Society HK\$'000	Goodwill HK\$'000	Total intangible assets HK\$'000	Fixed assets HK\$'000
Six months ended 30th June 2004						
Net book amount as at 1st January 2004	2,158	962	240	–	3,360	7,112
Additions	–	–	–	1,087	1,087	3,610
Write-off	–	–	–	–	–	(374)
Amortisation charge/ depreciation	(166)	(75)	(30)	(121)	(392)	(1,769)
Depreciation written back	–	–	–	–	–	263
Net book amount as at 30th June 2004	1,992	887	210	966	4,055	8,842

## 9. Trade and other receivables

	Unaudited 30th June 2004 HK\$'000	Audited 31st December 2003 HK\$'000
Trade receivables from clients	21,901	46,207
Less : provision for doubtful debts	(5,735)	(5,735)
Margin finance loans	57,083	46,317
Less : provision for doubtful debts	(4,795)	(4,795)
Margin and other trade related deposits with brokers and financial institutions	71,334	52,128
Trade receivables from clearing houses	485	16,852
Total trade receivables	140,273	150,974
Rental and utilities deposits	4,493	5,330
Prepayments and other receivables	2,362	2,590
Total trade and other receivables	147,128	158,894

**9. Trade and other receivables (Continued)**

The Group maintains designated accounts with The SEHK Options Clearing House Limited (“SEOCH”) and HKFE Clearing Corporation Limited (“HKFECC”) as a result of its normal business transactions. At 30th June 2004, the designated accounts with SEOCH and HKFECC not otherwise dealt with in these accounts amounted to HK\$804,505 and HK\$7,856,218 respectively (at 31st December 2003: HK\$442,303 and HK\$8,280,960 respectively).

As at 30th June 2004, the aging analysis of the trade receivables was as follows:

	<b>Unaudited</b>	Audited
	<b>30th June</b>	31st December
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Current	<b>138,599</b>	150,044
30 – 60 days	<b>118</b>	64
Over 60 days	<b>12,086</b>	11,396
	<b>150,803</b>	161,504
Less : Provision for doubtful debts	<b>(10,530)</b>	(10,530)
	<b>140,273</b>	150,974

**10. Bank balances and cash**

	<b>Unaudited</b>	Audited
	<b>30th June</b>	31st December
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Cash in hand	<b>449</b>	265
Bank balances		
– pledged	<b>19,973</b>	15,816
– general accounts	<b>112,055</b>	139,370
	<b>132,028</b>	155,186
	<b>132,477</b>	155,451



## 10. Bank balances and cash (Continued)

	Unaudited 30th June 2004 HK\$'000	Audited 31st December 2003 HK\$'000
(a) By maturity		
Bank balances		
– Current and savings accounts	96,908	128,416
– Fixed deposits (maturing within three months)	35,120	26,770
	132,028	155,186

- (b) As at 30th June 2004, bank deposits amounting to HK\$10,517,542 (at 31st December 2003: HK\$10,515,010) have been pledged to a bank for banking facilities to the extent of HK\$26 million (at 31st December 2003: HK\$26 million) in securities broking of the Group. In addition, bank deposits amounting to HK\$9,455,599 (at 31st December 2003: HK\$5,300,649) have been pledged to a financial institution for trading facilities in leveraged foreign exchange broking of the Group.

As at 30th June 2004, included in the aggregate banking facilities amounts of HK\$168 million (at 31st December 2003: HK\$150 million) granted to the Group, amounts of HK\$156 million (at 31st December 2003: HK\$138 million) were granted under the Company's corporate guarantee (Note 15). Whereas, a subsidiary of the Company which engages in securities broking has utilised HK\$30,984,000 (at 31st December 2003: HK\$32,442,000) and another subsidiary, the business of which was investment holding, has utilised HK\$8,000,000 (at 31st December 2003: nil) of the aggregate banking facilities.

The subsidiaries of the Group maintained segregated trust accounts with authorised institutions as a result of their respective business activities. At 30th June 2004, segregated trust accounts not otherwise dealt with in these accounts amounted to HK\$121,421,838 (at 31st December 2003: HK\$103,494,503).

**11. Trade and other payables**

	<b>Unaudited</b>	Audited
	<b>30th June</b>	31st December
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Margin and other deposits payable to clients	19,747	56,400
Trade payable to brokers and clearing houses arising from the ordinary course of business of broking in securities, futures and commodity contracts and leveraged foreign exchange trading	317	1,548
Total trade payables	20,064	57,948
Accruals and other payables	9,877	9,741
	<b>29,941</b>	67,689

The settlement terms of trade payable from the ordinary course of business of broking in securities payable to clearing houses and securities trading clients are two days after the trade date of those transactions. The margin and other deposits payable to other clients principally represent the margin deposits received from clients for their trading of leveraged foreign exchange, precious metal contracts, futures and commodity contracts. The excess over the required margin deposit stipulated are repayable to clients on demand.

Other trade payables are aged within 30 days.

**12. Bank loan, overdrafts and other borrowings**

	<b>Unaudited</b>	Audited
	<b>30th June</b>	31st December
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Bank loan		
– unsecured	18,000	–
Bank overdrafts		
– secured	5,756	11,924
– unsecured	15,231	20,518
	<b>38,987</b>	32,442

**13. Share capital**

	<b>Authorised</b>	
	<b>Ordinary shares of HK\$0.10 each</b>	
	<b>No. of shares '000</b>	<b>Nominal value HK\$'000</b>
At 1st January 2004, 2003 and 30th June 2004	1,000,000	100,000
	<b>Issued and fully paid</b>	
	<b>Ordinary shares of HK\$0.10 each</b>	
	<b>No. of shares '000</b>	<b>Nominal value HK\$'000</b>
At 1st January 2004 and 30th June 2004	391,130	39,113
At 1st January 2003 and 30th June 2003	391,130	39,113

**14. Deferred taxation**

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2003: 17.5%).

The movement on the net deferred tax liabilities/(assets) during the period/year is as follows:

	<b>Unaudited 30th June 2004 HK\$'000</b>	<b>Audited 31st December 2003 HK\$'000</b>
At the beginning of the period/year	–	6
Deferred taxation charged/(credited) to income statement ( <i>Note 5</i> )	<b>222</b>	(6)
At the end of the period/year	<b>222</b>	–

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK\$46,751,650 at 30th June 2004 (31st December 2003: HK\$34,837,236) to carry forward against future taxable income. These tax losses have no expiry date.

**14. Deferred taxation (Continued)**

The movement in net deferred tax liabilities/(assets) during the period/year is as follows:

	Accelerated tax depreciation		Tax losses		Total	
	Unaudited 30th June 2004 HK\$'000	Audited 31st December 2003 HK\$'000	Unaudited 30th June 2004 HK\$'000	Audited 31st December 2003 HK\$'000	Unaudited 30th June 2004 HK\$'000	Audited 31st December 2003 HK\$'000
At 1st January	966	1,169	(966)	(1,163)	–	6
(Credited)/charged to income statement	(97)	(203)	319	197	222	(6)
At 30th June 2004/31st December 2003	869	966	(647)	(966)	222	–

**15. Contingent liabilities**

- (a) The Company received a writ of summons on 28th July 2000, filed by a Company named Hantec Investment Limited which is unrelated to the Group. The plaintiff sought for injunction to restrain the Company from using the plaintiff's alleged trade name and damages.

The directors have commenced a defence action and will continue to defend it. Potential damages, losses, fees, expenses, proceedings and claims which have been and may be incurred by the Group as a result of the action have been covered by a joint and several indemnity, given by the ultimate controlling shareholders and accordingly no provision has been made by the Group as at 30th June 2004.

- (b) As at 30th June 2004, the Company had issued corporate guarantees to certain banks for credit facilities up to an amount of HK\$156,000,000 (at 31st December 2003: HK\$138,000,000) granted to a subsidiary which engages in securities broking and another subsidiary which held certain investments. In addition, the Company had issued corporate guarantees to certain financial institutions for foreign exchange trading and precious metals contracts trading facilities granted to subsidiaries which engage in leveraged foreign exchange trading and precious metals trading. The guarantee amounts vary and are subject to the volume of contracts traded with the financial institutions.

**16. Operating lease commitment**

At 30th June 2004, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	<b>Unaudited</b>	Audited
	<b>30th June</b>	31st December
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
<b>Land and buildings</b>		
Not later than one year	4,994	6,232
Later than one year and not later than five years	7,987	10,293
	<b>12,981</b>	16,525

**17. Assets, liabilities and commitments in foreign currencies**

	<b>Unaudited</b>	Audited
	<b>30th June</b>	31st December
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Total assets in foreign currencies included in the balance sheet	<b>155,113</b>	130,284
Total liabilities in foreign currencies included in the balance sheet	<b>1,105</b>	1,635
Total commitments to purchase foreign currencies under leveraged foreign exchange trading contracts	<b>1,360,326</b>	1,130,450
Total commitments to sell foreign currencies under leveraged foreign exchange trading contracts	<b>1,357,578</b>	1,309,031
Total commitments to purchase foreign currencies under option contracts	<b>750,994</b>	41,118
Total commitments to sell foreign currencies under option contracts	<b>756,109</b>	393,494

Total commitments to purchase or sell foreign currencies under leveraged foreign exchange trading contracts consist of a basket of currencies which cannot be offset against each other. From the Group's risk management perspective, individual positions in each currency (short or long) are monitored for exchange risk.

**18. Acquisition**

On 27th February 2004, the Group acquired 70% of the share capital of 富林國際證券投資顧問股份有限公司 which engages in provision of wealth management, investment advisory and consultancy services and was incorporated in Taiwan. The consideration of HK\$9,185,208 was settled in cash. The fair value of the net identifiable assets of the company at the date of acquisition was HK\$11,569,185. The resulting goodwill of HK\$1,086,778 will be amortised on a straight-line basis over 3 years. The acquired business contributed revenue of HK\$203,751 and operating loss of HK\$291,434 to the Group for the period from 1st March 2004 to 30th June 2004.

The 70% share of assets and liabilities arising from the acquisition are as follows:

	HK\$'000
Bank balances and cash	1,679
Trade and other receivables	6,525
Trade and other payables	(106)
	8,098
Goodwill	1,087
	9,185

**19. Related party transactions**

During the period, the associated companies in New Zealand and Japan conducted leveraged foreign exchange and precious metals trading activities through the subsidiaries of the Group. Spreads are based on relevant market rates at the time of each transaction and at the same terms as available to other customers and counterparties of the Group. Swap interest and trading revenue of HK\$38,658,398 (2003: HK\$19,481,877) were resulted from these business transactions with the Group.

**20. Capital commitments**

Capital commitments for system software development and fixed asset acquisition is as follows:

	Unaudited 30th June 2004 HK\$'000	Audited 31st December 2003 HK\$'000
Contracted but not provided for	233	1,827
	233	1,827