

# Notes to the accounts

For the financial year ended 30 June 2004

## 1 Corporate information

The Company was incorporated in Bermuda under the Companies Act as an exempted company with limited liability on 17 May 2000. Pursuant to a group reorganisation completed on 10 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 15 September 2000.

## 2 Significant accounting policies

### (a) Statement of compliance

These accounts have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These accounts also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

### (b) 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.

In the current year, the Group has adopted the Statements of Standard Accounting Practice ("SSAP") No. 12 (Revised) "Income Taxes" issued by the HKICPA. The principal effect of implementation of SSAP 12 (Revised) is in relation to deferred tax. In prior years, partial provision was made for deferred tax using the profit and loss account liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of the assets and liabilities in the accounts and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. This represents a change in accounting policy which requires retrospective application. However, the effect of this change is not material to the Group's results in prior years and therefore the opening balances and comparative figures presented herein have not been restated.

### (c) 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 10 August 2000, the date that the Company became the holding company of the companies comprising the Group, had been in existence prior to 10 August 2000.

# Notes to the accounts

(Expressed in Hong Kong dollars)

## 2 Significant accounting policies (continued)

### (c) Basis of consolidation (continued)

- (ii) The consolidated accounts include the accounts of the Company and its subsidiaries made up to 30 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.

Where losses attributable to the minority exceed the minority interest in the net assets of a subsidiary, the excess, and any further losses attributable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. All subsequent profits of the subsidiary are allocated to the Group until the minority's share of losses previously absorbed by the Group has been recovered.

### (d) Subsidiaries

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

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.

### (e) Associates and jointly controlled entity

An associate 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.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group and other parties, where the contractual arrangement establishes that the Group and one or more of the other parties share joint control over the economic activity of the entity.

# Notes to the accounts

For the financial year ended 30 June 2004

## 2 Significant accounting policies (continued)

### (e) Associates and jointly controlled entity (continued)

The consolidated profit and loss account includes the Group's share of the post-acquisition results of associates and jointly controlled entity for the year. The consolidated balance sheet includes the Group's share of the net assets of the associates and jointly controlled entity 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 associate or jointly controlled entity reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associate or jointly controlled entity.

### (f) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit and loss account as follows:

- (i) 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, asset management, loan arrangement, secretarial and other service fees are recognised upon such services being rendered. Transactions of investment in securities and related revenues are recorded on a trade date basis.
- (ii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.
- (iii) Dividend income is recognised when the right to receive payment is established.
- (iv) Payments received under operating leases net of any incentives paid to the lessee are recognised as rental income on a straight-line basis.

### (g) 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.

# Notes to the accounts

(Expressed in Hong Kong dollars)

## 2 Significant accounting policies (continued)

### (g) Intangible assets (continued)

#### (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 1 July 2001 is included as intangible assets and is amortised using the straight-line basis over its estimated useful life. Goodwill on acquisitions that occurred prior to 1 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 1 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 1 July 2001 was taken to capital reserve.

### (h) 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 the profit and loss account up to the amount previously debited.

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.

# Notes to the accounts

For the financial year ended 30 June 2004

## 2 Significant accounting policies (continued)

### (h) Fixed assets (continued)

#### (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 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.

# Notes to the accounts

(Expressed in Hong Kong dollars)

## 2 Significant accounting policies (continued)

### (i) 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.

### (j) Investments

#### (i) Long term investments

Long term investments include club debentures, membership, 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 the 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.

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.

# Notes to the accounts

For the financial year ended 30 June 2004

## 2 Significant accounting policies (continued)

### (j) Investments (continued)

#### (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.

#### (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 number 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.

### (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 on the accounts. When a change in the probability of an outflow occurs so that the outflow is probable, it will be recognised as a provision.

# Notes to the accounts

(Expressed in Hong Kong dollars)

## 2 Significant accounting policies (continued)

### (k) Provisions, contingent liabilities and contingent assets (continued)

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 on the accounts when an inflow of economic benefits is probable. When the inflow is virtually certain, an asset is recognised.

### (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 1 December 2000 under the 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 subject to the relevant monthly income cap of \$20,000 imposed by the MPF Schemes 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.

# Notes to the accounts

For the financial year ended 30 June 2004

## 2 Significant accounting policies (continued)

### (m) Income tax

- (i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the profit and loss account except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.
- (ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.
- (iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, negative goodwill treated as deferred income, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

# Notes to the accounts

(Expressed in Hong Kong dollars)

## 2 Significant accounting policies (continued)

### (m) Income tax (continued)

#### (iii) (continued)

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

#### (iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

### (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.

# Notes to the accounts

For the financial year ended 30 June 2004

## 2 Significant accounting policies (continued)

### (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 and 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.

### (r) Related parties

For the purposes of these accounts, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating 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.

# Notes to the accounts

(Expressed in Hong Kong dollars)

## 3 Turnover

The principal activities of the Group are investment in securities, stock and futures brokerage, provision of financial advisory services, asset management, money lending and other securities related financial services.

	<b>2004</b> <b>HK\$</b>	2003 <b>HK\$</b>
Trading gain/(loss) on investments		
— marketable securities	<b>110,200,710</b>	(194,199,396)
— other investments	<b>(1,651,260)</b>	(3,247,165)
	<b>108,549,450</b>	(197,446,561)
Commission and fee income on		
— stock and futures brokerage	<b>25,008,315</b>	10,777,714
— underwriting and placements in equity capital market	<b>30,171,382</b>	12,110,203
— corporate finance	<b>12,333,141</b>	18,920,538
— asset management	<b>2,236,170</b>	2,544,893
— loan arrangement	<b>8,000</b>	83,500
— miscellaneous fee income	<b>4,589,122</b>	5,228,194
	<b>74,346,130</b>	49,665,042
Interest and dividend income		
— interest from		
— bank deposits	<b>348,034</b>	1,299,528
— margin financing	<b>8,725,757</b>	12,662,793
— other financing	<b>1,881,805</b>	5,311,290
— unlisted debt securities	<b>381,815</b>	774,235
— others	<b>6,669</b>	5,629
— dividends from listed equity securities	<b>4,221,696</b>	7,651,764
	<b>15,565,776</b>	27,705,239
	<b>198,461,356</b>	(120,076,280)

## 4 Other revenue

	<b>2004</b> <b>HK\$</b>	2003 <b>HK\$</b>
Rental income from land and building	<b>479,472</b>	711,646
Gain on disposal of subsidiaries	<b>25,043</b>	—
Negative goodwill on acquisition of a subsidiary	<b>702,000</b>	—
	<b>1,206,515</b>	711,646

# Notes to the accounts

For the financial year ended 30 June 2004

## 5 Impairment losses

	<b>2004</b> <i>HK\$</i>	2003 <i>HK\$</i>
Impairment of		
— long term investments	<b>20,250,000</b>	37,900,000
— intangible assets	<b>4,023,406</b>	—
— goodwill previously taken directly to reserves ( <i>Note 30</i> )	<b>774,377</b>	7,267,739
	<b>25,047,783</b>	45,167,739

## 6 Profit/(loss) from ordinary activities before taxation

Profit/(loss) from ordinary activities before taxation is arrived at after charging:

	<b>2004</b> <i>HK\$</i>	2003 <i>HK\$</i>
(a) Finance costs:		
Interest on:		
— short term bank loans and overdrafts	<b>1,146,149</b>	1,543,209
— other accounts payable	<b>512,343</b>	1,710,467
	<b>1,658,492</b>	3,253,676
(b) Staff costs:		
Salaries and other allowances	<b>60,134,680</b>	53,145,664
Pension costs — defined contribution plan	<b>1,159,875</b>	1,157,555
Termination benefits	—	408,337
	<b>61,294,555</b>	54,711,556
(c) Other items:		
Amortisation of intangible assets	<b>776,786</b>	1,045,839
Provision for doubtful debts (net)	<b>2,413,204</b>	7,238,139
Operating leases		
— land and buildings	<b>2,331,203</b>	4,854,771
— office equipment	<b>430,400</b>	388,000
Depreciation	<b>3,308,586</b>	3,444,658
Net loss on disposal of fixed assets	<b>362,420</b>	368,968
Auditors' remuneration	<b>1,494,319</b>	1,122,090

# Notes to the accounts

(Expressed in Hong Kong dollars)

## 7 Income tax in the consolidated profit and loss account

(a) Taxation in the consolidated profit and loss account represents:

Hong Kong Profits Tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits for the year. Overseas taxation is charged at the appropriate current rates of taxation ruling in the relevant country.

	<b>2004</b> <i>HK\$</i>	2003 <i>HK\$</i>
<b>Current tax — Provision for Hong Kong Profits Tax</b>		
Tax for the year	<b>2,426,098</b>	14,615
Over-provision in prior years	<b>(15,073,437)</b>	(142,560)
	<b>(12,647,339)</b>	(127,945)
<b>Current tax — Overseas</b>		
Tax for the year	—	69,073
<b>Deferred tax</b>		
Origination and reversal of temporary differences	<b>(261,649)</b>	(7,500,000)
<b>Share of associates' taxation</b>	<b>65,132</b>	3,674
	<b>(12,843,856)</b>	(7,555,198)

(b) Reconciliation between tax credit and accounting profit/(loss) at applicable tax rates:

	<b>2004</b> <i>HK\$</i>	2003 <i>HK\$</i>
Profit/(loss) before tax	<b>68,604,895</b>	(283,268,495)
Tax at the domestic income tax rate of 17.5%	<b>12,005,857</b>	(49,571,987)
Effect on opening deferred tax balances resulting from an increase in tax rate during the year	—	764,323
Effect of different tax rates of subsidiaries operating in other jurisdictions	<b>(7,163,212)</b>	20,596,548
Tax effect of non-deductible expenses	<b>1,542,365</b>	26,400,408
Tax effect of non-taxable revenue	<b>(28,446,234)</b>	(1,152,648)
Tax effect of utilisation of tax losses not previously recognised	<b>(2,582,585)</b>	(8,390,763)
Tax effect of tax losses not recognised	<b>26,897,825</b>	3,974,453
Over-provision in prior years	<b>(15,073,437)</b>	(142,560)
Others	<b>(24,435)</b>	(32,972)
Actual tax credit	<b>(12,843,856)</b>	(7,555,198)

# Notes to the accounts

For the financial year ended 30 June 2004

## 8 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:

	<b>2004</b> <b>HK\$</b>	2003 <i>HK\$</i>
Fees	<b>3,260,000</b>	1,780,833
Salaries, commissions and other allowances	<b>7,930,620</b>	4,343,356
Inducement fee	—	3,000,000
Bonuses	<b>2,045,910</b>	—
Retirement scheme contributions	<b>47,000</b>	43,000
	<b>13,283,530</b>	9,167,189

Included in the directors' emoluments were fees of \$260,000 (2003: \$418,333) paid to the independent non-executive directors during the year.

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 is within the following bands:

	<b>2004</b> <b>Number of</b> <b>directors</b>	2003 Number of directors
\$Nil — \$1,000,000	<b>5</b>	7
\$1,000,001 — \$1,500,000	<b>1</b>	—
\$1,500,001 — \$2,000,000	<b>1</b>	—
\$2,500,001 — \$3,000,000	<b>1</b>	1
\$4,000,001 — \$4,500,000	—	1
\$7,000,001 — \$7,500,000	<b>1</b>	—

# Notes to the accounts

(Expressed in Hong Kong dollars)

## 8 Directors' and management's emoluments (continued)

### (a) Directors' emoluments (continued)

Details of the emoluments of the directors are as follows:

	2004 HK\$	2003 HK\$
Jonathan Koon Shum Choi	—	—
William Ka Chung Lam	2,942,000	787,000
Mary Yuk Sin Lam	7,009,287	2,755,356
Michael Wai Chung Wu	1,844,333	4,215,333
Michael Koon Ming Choi	1,227,910	612,000
Douglas Ching Shan Hui	—	—
Richard Yingneng Yin	—	587,500
Robert Tsai To Sze	160,000	160,000
Raymond Wai Yung Wu	100,000	50,000
	<b>13,283,530</b>	<b>9,167,189</b>

### (b) Management's emoluments (excluding commissions)

The five individuals whose emoluments (excluding commissions) were the highest in the Group for the year include 1 (2003: 1) director whose emoluments (excluding commissions) are reflected in the analysis presented above. The emoluments (excluding commissions) payable to the remaining 4 (2003: 4) individuals during the year are as follows:

	2004 HK\$	2003 HK\$
Salaries, other allowances and benefits in kind	6,221,053	6,559,970
Bonuses	6,700,000	1,385,333
Retirement scheme contributions	46,000	48,000
	<b>12,967,053</b>	<b>7,993,303</b>

The emoluments is within the following bands:

	2004 Number of individuals	2003 Number of individuals
\$1,500,001 — \$2,000,000	—	2
\$2,000,001 — \$2,500,000	—	2
\$2,500,001 — \$3,000,000	1	—
\$3,000,001 — \$3,500,000	1	—
\$3,500,001 — \$4,000,000	2	—

# Notes to the accounts

For the financial year ended 30 June 2004

## 9 Profit/(loss) attributable to shareholders

The consolidated profit/(loss) attributable to shareholders includes a profit of \$82,931,288 (2003: loss of \$71,346,376) which has been dealt with in the accounts of the Company.

## 10 Dividends

(a) Dividends attributable to the year

	<b>2004</b> <b>HK\$</b>	2003 <b>HK\$</b>
Interim dividend paid of 0.33 cents per share (2003: 0.33 cents per share)	<b>10,324,863</b>	10,410,441
Final dividend proposed after the balance sheet date of 0.67 cents per share (2003: 0.33 cents per share)	<b>21,694,894</b>	10,322,784
	<b>32,019,757</b>	20,733,225

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends attributable to the previous financial year, approved and paid during the year

	<b>2004</b> <b>HK\$</b>	2003 <b>HK\$</b>
Final dividend in respect of the previous financial year, approved and paid during the year, of 0.33 cents per share (2003: 0.67 cents per share)	<b>10,323,114</b>	20,819,082

## 11 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 \$81,432,085 (2003: loss of \$275,795,612).

The basic earnings/(loss) per share is calculated based on the weighted average of 3,143,599,518 (2003: 3,123,217,827) ordinary shares in issue during the year. The diluted earnings per share for the current year is calculated based on 3,197,820,861 ordinary shares which is the weighted average number of ordinary shares in issue during the year plus the weighted average number of 54,221,343 ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised. The diluted loss per share for last year is not presented because the effect of exercising all the outstanding share options is anti-dilutive.

# Notes to the accounts

(Expressed in Hong Kong dollars)

## 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 management	:	Provision of asset management and related advisory services to private equity funds and private clients, and wealth 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 (the "PRC") 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 and consolidated total assets of the Group are attributable to markets outside Hong Kong.

# Notes to the accounts

For the financial year ended 30 June 2004

## 12 Segment reporting (continued)

	2004						Consolidated HK\$
	Investment in securities HK\$	Brokerage and equity capital market HK\$	Corporate finance HK\$	Asset management HK\$	Financing HK\$	Others HK\$	
<b>Segmental profit and loss account</b>							
Revenues							
Turnover	113,454,015	65,670,690	12,502,130	3,531,416	1,891,331	1,411,774	198,461,356
Inter-segment revenues	1,534,018	6,754,939	9,848,682	19,897,066	—	9,747,233	47,781,938
Other revenues	—	—	—	—	—	1,206,515	1,206,515
	<b>114,988,033</b>	<b>72,425,629</b>	<b>22,350,812</b>	<b>23,428,482</b>	<b>1,891,331</b>	<b>12,365,522</b>	<b>247,449,809</b>
Eliminations							(47,781,938)
Total revenues							<b>199,667,871</b>
Segment results	<b>56,553,332</b>	<b>5,986,522</b>	<b>1,538,182</b>	<b>11,359,635</b>	<b>1,704,588</b>	<b>(9,294,483)</b>	<b>67,847,776</b>
Share of results of associates	—	577,283	—	(44,069)	—	451,905	985,119
Share of results of jointly controlled entity	—	—	—	—	—	(228,000)	(228,000)
Profit before taxation							68,604,895
Taxation credit							12,843,856
Profit after taxation							81,448,751
Minority interests							(16,666)
Profit attributable to shareholders							<b>81,432,085</b>
<b>Segment assets and liabilities</b>							
Segment assets	386,560,121	161,029,996	6,512,745	8,761,246	5,258,261	102,597,909	670,720,278
Interest in associates	—	6,856,598	—	510,597	—	29,440,705	36,807,900
Interest in jointly controlled entity	—	—	—	—	—	72,000	72,000
							707,600,178
Eliminations							(26,037,085)
Total assets							<b>681,563,093</b>
Segment liabilities	19,943,322	33,550,726	964,293	958,412	5,614,121	9,886,664	70,917,538
Unallocated liabilities							27,550,804
							98,468,342
Eliminations							(26,037,085)
Total liabilities							<b>72,431,257</b>
<b>Other segmental information</b>							
Depreciation and amortisation of tangible and intangible assets for the year	—	2,406,564	332,376	272,509	—	1,073,923	4,085,372
Impairment loss recognised in the profit and loss account	20,070,000	4,023,406	180,000	—	—	774,377	25,047,783
Capital expenditure incurred during the year	—	270,783	—	138,000	—	2,692,665	3,101,448

# Notes to the accounts

(Expressed in Hong Kong dollars)

## 12 Segment reporting (continued)

	2003						
	Investment in securities HK\$	Brokerage and equity capital market HK\$	Corporate finance HK\$	Asset management HK\$	Financing HK\$	Others HK\$	Consolidated HK\$
<b>Segmental profit and loss account</b>							
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 associates	—	(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)
<b>Segment assets and liabilities</b>							
Segment assets	332,967,753	189,814,820	6,320,750	7,675,882	73,935,238	24,027,500	634,741,943
Interest in associates	—	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
<b>Other segmental information</b>							
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

For the financial year ended 30 June 2004

## 13 Intangible assets

	Group	
	2004 HK\$	2003 HK\$
Trading rights of Hong Kong Exchanges and Clearing Limited	1,500,000	6,181,591
B-Shares Tangible Trading Seat of Shanghai Stock Exchange	429,743	488,344
B-Shares Special Seat of Shenzhen Stock Exchange	420,000	480,000
Negative goodwill	—	—
	<b>2,349,743</b>	<b>7,149,935</b>

Movements in intangible assets are as follows:

	Negative goodwill HK\$	Trading rights and exchange seats HK\$
<b>Cost:</b>		
At 1 July 2003	(180,000)	9,897,318
Addition	(702,000)	—
<b>At 30 June 2004</b>	<b>(882,000)</b>	<b>9,897,318</b>
<b>Negative goodwill recognised as income/ accumulated amortisation:</b>		
At 1 July 2003	(180,000)	2,747,383
Recognised for the year	(702,000)	—
Impairment	—	4,023,406
Charge for the year	—	776,786
<b>At 30 June 2004</b>	<b>(882,000)</b>	<b>7,547,575</b>
<b>Net book value:</b>		
<b>At 30 June 2004</b>	<b>—</b>	<b>2,349,743</b>
At 30 June 2003	—	7,149,935

# Notes to the accounts

(Expressed in Hong Kong dollars)

## 14 Fixed assets

	Group					Total HK\$
	Investment property HK\$	Leasehold improvements HK\$	Furniture and fixtures HK\$	Office equipment HK\$	Motor vehicles HK\$	
<b>Cost or valuation:</b>						
At 1 July 2003	7,000,000	4,611,859	2,088,100	9,269,495	2,159,185	25,128,639
Additions	—	875,079	18,240	496,707	1,711,422	3,101,448
Disposals	—	(72,581)	(153,586)	(471,324)	(979,000)	(1,676,491)
Revaluation	5,000,000	—	—	—	—	5,000,000
<b>At 30 June 2004</b>	<b>12,000,000</b>	<b>5,414,357</b>	<b>1,952,754</b>	<b>9,294,878</b>	<b>2,891,607</b>	<b>31,553,596</b>
<b>Accumulated depreciation:</b>						
At 1 July 2003	—	2,636,859	1,178,162	5,539,607	1,681,146	11,035,774
Exchange adjustment	—	873	—	64	45	982
Charge for the year	—	1,287,939	401,208	1,451,947	167,492	3,308,586
Disposals	—	—	(71,102)	(133,969)	(979,000)	(1,184,071)
<b>At 30 June 2004</b>	<b>—</b>	<b>3,925,671</b>	<b>1,508,268</b>	<b>6,857,649</b>	<b>869,683</b>	<b>13,161,271</b>
<b>Net book value:</b>						
<b>At 30 June 2004</b>	<b>12,000,000</b>	<b>1,488,686</b>	<b>444,486</b>	<b>2,437,229</b>	<b>2,021,924</b>	<b>18,392,325</b>
At 30 June 2003	7,000,000	1,975,000	909,938	3,729,888	478,039	14,092,865
The analysis of cost or valuation at 30 June 2004 of the above assets is as follows:						
At cost	—	5,414,357	1,952,754	9,294,878	2,891,607	19,553,596
At valuation	12,000,000	—	—	—	—	12,000,000
	12,000,000	5,414,357	1,952,754	9,294,878	2,891,607	31,553,596

The Group's interest in investment property represents a property located in Hong Kong which is held on a long lease of more than 50 years. The property was revalued at 30 June 2004 by Knight Frank Hong Kong Limited, an independent firm of chartered surveyors employed by the Group, on the basis of open market value. The revaluation surplus of \$5,000,000 was credited to the profit and loss account.

As at 30 June 2004, such property was pledged against the Group's bank overdraft facilities totalling \$5,600,000 (2003: \$5,600,000) of which \$5,597,068 (Note 25) had been utilised as at 30 June 2004 (2003: \$Nil).

# Notes to the accounts

For the financial year ended 30 June 2004

## 15 Other assets

	Group	
	2004 HK\$	2003 HK\$
Statutory deposits	4,059,453	3,895,062
Others	1,078,125	56,198
	<b>5,137,578</b>	3,951,260

## 16 Investment in subsidiaries

	Company	
	2004 HK\$	2003 HK\$
Unlisted shares, at cost	271,222,358	271,222,358
Amounts due from subsidiaries	384,558,306	276,085,850
Less: Provision for doubtful debts	(75,000,000)	(75,000,000)
	<b>309,558,306</b>	201,085,850
	<b>580,780,664</b>	472,308,208

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 35.

## 17 Interest in associates

	Group	
	2004 HK\$	2003 HK\$
Share of net assets	36,807,900	37,057,913

# Notes to the accounts

(Expressed in Hong Kong dollars)

## 17 Interest in associates (continued)

The following is a list of the principal associates, all of which are unlisted corporate entities, of the Group as at 30 June 2004:

Name	Place of incorporation/ operations	Principal activities	Particulars of issued shares	Interest indirectly held
KCG Capital Holdings Limited, and its subsidiary	British Virgin Islands	Investment holding	20,000,000 ordinary shares of \$1 each	30%
— KCG Securities Asia Limited	Hong Kong	Securities brokerage	20,000,000 ordinary shares of \$1 each	30%
Sinochem Kingsway Asset Management Limited	Cayman Islands/ Hong Kong	Asset management	70,000 ordinary shares of US\$1 each	50%
Sinochem Kingsway Capital Inc.	Cayman Islands	Investment holding	100,000 ordinary shares of \$0.1 each	30%

## 18 Interest in jointly controlled entity

	Group	
	2004 HK\$	2003 HK\$
Share of net assets	<b>72,000</b>	—

Details of the Group's interest in the jointly controlled entity are as follows:

Name	Place of incorporation/ operations	Principal activities	Particulars of issued shares	Interest indirectly held
ZJ Kingsway Finance Holdings Company Limited	Hong Kong	Provision of corporate consultancy services	1,000,000 ordinary shares of \$1 each	30%

# Notes to the accounts

For the financial year ended 30 June 2004

## 19 Long term investments

	Group	
	2004 HK\$	2003 HK\$
Unlisted held-to-maturity convertible bonds, at amortised cost (Note (a))	<b>40,070,000</b>	44,070,000
Less: Impairment	<b>(40,070,000)</b>	(20,000,000)
	—	24,070,000
	—	23,000,000
Listed equity securities in Hong Kong (Note (b))	—	(17,900,000)
Less: Impairment	—	5,100,000
	—	5,100,000
Unlisted equity securities, at cost	<b>100</b>	100
The Chinese Gold and Silver Exchange Society Membership	<b>280,000</b>	—
Club debentures, at cost	<b>1,694,000</b>	1,694,000
Less: Impairment	<b>(180,000)</b>	—
	<b>1,514,000</b>	1,694,000
	<b>1,794,100</b>	30,864,100
Market value of listed securities	—	5,100,000

### Notes:

- (a) During the year, certain convertible bonds held by the Group were exchanged prior to their maturity 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 exchange. The amortised cost of the exchanged convertible bonds at the date of exchange 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.

During the prior year, certain convertible bonds held by the Group were exchanged prior to their maturity for new convertible bonds issued by the same issuer. The amortised cost of the exchanged convertible bonds at the date of exchange was taken by the Group to be the cost of these newly acquired convertible bonds.

- (b) During the year, these shares were transferred from long term investments to marketable securities upon the change of the Group's intention for holding such investments. 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 year.

# Notes to the accounts

(Expressed in Hong Kong dollars)

## 20 Cash and cash equivalents

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 30 June 2004, trust accounts not otherwise dealt with in these accounts amounted to \$155,259,734 (2003: \$188,680,765).

## 21 Marketable securities

	Group	
	2004 HK\$	2003 HK\$
Listed equity securities, at fair value		
— in Hong Kong	<b>310,377,617</b>	283,246,322
— outside Hong Kong (Note)	<b>15,176,612</b>	—
	<b>325,554,229</b>	283,246,322
Market value of listed equity securities	<b>339,849,421</b>	284,296,079

As at 30 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%

Note: Included in this balance is an amount of \$7,950,614 (2003: \$Nil) of equity securities listed outside Hong Kong placed with an escrow agent as a deposit for a potential investment, details of which are disclosed in Note 32(b) on the accounts.

## 22 Other investments

	Group	
	2004 HK\$	2003 HK\$
Unlisted investments, at fair value		
— equity securities (Note)	<b>2,100,000</b>	12,011,617
— debt securities	<b>10,000,000</b>	3,457,200
	<b>12,100,000</b>	15,468,817

Note: Included in this balance is an amount of \$2,100,000 (2003: \$Nil) of unlisted warrants placed with an escrow agent as a deposit for a potential investment, details of which are disclosed in Note 32(b) on the accounts.

# Notes to the accounts

For the financial year ended 30 June 2004

## 23 Accounts, loans and other receivables

Note	Group		Company	
	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
<b>Accounts and loans receivable, net of provisions</b>				
Amounts due from brokers and clearing houses (a)	5,953,450	359,341	—	—
Amounts due from margin clients (b)	91,259,685	107,445,168	—	—
Amounts due from cash clients (c)	3,776,459	7,504,277	—	—
Loans receivable (d)	5,256,420	69,501,046	—	—
Others	4,883,767	10,603,730	—	—
	<b>111,129,781</b>	195,413,562	—	—
Prepayments, deposits and other receivables (e)	42,118,920	6,602,613	178,000	180,000
	<b>153,248,701</b>	202,016,175	<b>178,000</b>	180,000

The ageing analysis of accounts and loans receivable is as follows:

	Group		Company	
	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
Current and within one month	108,082,434	184,686,776	—	—
More than one month and less than three months	395,689	8,733,155	—	—
More than three months	2,651,658	1,993,631	—	—
	<b>111,129,781</b>	195,413,562	—	—

Notes:

- (a) Amounts due from brokers and clearing houses are required to be settled on the settlement day determined 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 30 June 2004, the Group held \$2,781,419 (2003: \$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 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.

# Notes to the accounts

(Expressed in Hong Kong dollars)

## 23 Accounts, loans and other receivables (continued)

Notes: (continued)

- (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 determined under the relevant market practices or exchange rules.
- (d) The credit terms for loans granted by the Group's financing division are set by management with reference to the financial background and the value and nature of collaterals pledged by the borrower.
- (e) Included in this balance is an amount of \$35,838,862 (2003: \$Nil) placed with an escrow agent as a deposit for a potential investment, details of which are disclosed in Note 32(b) on the accounts.

## 24 Amounts due from related companies

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

## 25 Short term bank loans and overdrafts

	Group		Company	
	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
Unsecured bank overdraft	319,997	—	—	—
Secured bank overdraft (Note 14)	5,597,068	—	—	—
Unsecured bank loan	5,000,000	—	5,000,000	—
Secured bank loan (Note)	—	43,500,000	—	—
	<b>10,917,065</b>	43,500,000	<b>5,000,000</b>	—

Note: Certain banking facilities of the Group were secured by securities collateral from the Group's margin clients and the Group's marketable securities with market value of \$246,040,824 (2003: \$263,530,176) and \$15,370,000 (2003: \$7,400,000) respectively. These facilities were not utilised as at 30 June 2004.

## 26 Short positions in marketable securities

	Group	
	2004 HK\$	2003 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 granted to the Group a call option which fully covers the Group's short positions arising from the over-allotment of the underlying securities. As at 30 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. During the current year, such short positions were settled.

# Notes to the accounts

For the financial year ended 30 June 2004

## 27 Accounts payable and accruals

	Group		Company	
	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
<b>Accounts payable within one month</b>				
Amounts due to brokers and clearing houses	59,670	19,116,073	—	—
Clients' accounts payable (net of bank and clearing house balances in trust accounts)	17,079,578	—	—	—
Others	5,418,071	42,919,884	—	—
	<b>22,557,319</b>	62,035,957	—	—
Other creditors and accruals	11,406,069	13,495,864	1,231,203	672,155
Amounts due to subsidiaries	—	—	70,245,572	—
	<b>33,963,388</b>	75,531,821	<b>71,476,775</b>	672,155

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

## 28 Deferred taxation

	Group		Total
	Accelerated depreciation allowances	Unrealised trading gain in investments	
At 1 July 2002	652,779	7,500,000	8,152,779
Credited to profit and loss account	—	(7,500,000)	(7,500,000)
At 30 June 2003 and 1 July 2003	652,779	—	652,779
Credited to profit and loss account	(261,649)	—	(261,649)
<b>At 30 June 2004</b>	<b>391,130</b>	<b>—</b>	<b>391,130</b>

The Group has not recognised deferred tax assets in respect of tax losses of \$208 million (2003: \$86 million). The tax losses do not expire under current tax regulation.

# Notes to the accounts

(Expressed in Hong Kong dollars)

## 29 Share capital

	<b>Ordinary shares of \$0.1 each</b>	
	<b>No. of shares</b>	<b>Amount HK\$</b>
<b>Authorised:</b>		
At 1 July 2002	2,000,000,000	200,000,000
Increase of authorised share capital pursuant to resolution passed on 25 March 2003	2,000,000,000	200,000,000
<b>At 30 June 2003 and 30 June 2004</b>	<b>4,000,000,000</b>	<b>400,000,000</b>
<b>Issued and fully paid:</b>		
At 1 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
At 30 June 2003 and 1 July 2003	3,125,846,327	312,584,633
Exercise of share options (Note (a))	7,715,000	771,500
Share issue (Note (b))	102,631,579	10,263,158
<b>At 30 June 2004</b>	<b>3,236,192,906</b>	<b>323,619,291</b>

Notes:

- (a) During the year, an aggregate of 7,715,000 ordinary shares were issued by the Company to the grantees upon their exercising of share options. The total cash proceeds received by the company was \$1,858,710. These shares rank pari passu with the existing shares.

Details of the equity compensation benefits are as follows:

The Company has a share option scheme which was adopted on 23 August 2000 whereby the directors of the Company are authorised, at their discretion, to invite full-time employees, including executive directors of the Company and its subsidiaries, to take up options to subscribe for shares of the Company. For options granted before 1 September 2001, the exercise price of options was determined by the board and was not less than 80% of the average of the closing prices of the shares on the Stock Exchange for the five trading days immediately preceding the date of the offer. For options granted on or after 1 September 2001, the exercise price of options is the highest of the nominal value of the shares, the closing price of the shares on the Stock Exchange on the date of grant and the average closing price of the shares on the Stock Exchange for the five business days immediately preceding the date of grant. Details of the share option scheme are disclosed under the section "Share Options" in the report of the directors.

# Notes to the accounts

For the financial year ended 30 June 2004

## 29 Share capital (continued)

Notes: (continued)

(a) (continued)

(i) Movements in share options

	2004 Number	2003 Number
At 1 July	228,040,000	77,031,000
Issued	30,200,000	35,000,000
Exercised	(7,715,000)	(3,124,000)
Lapsed	(1,290,000)	(49,899,000)
Bonus issue	—	169,032,000
At 30 June	<b>249,235,000</b>	228,040,000
Options vested at 30 June	<b>219,035,000</b>	171,040,000

(ii) Terms of unexpired and unexercised share options at balance sheet date

Date of share options granted	Exercise period	Exercise price per share HK\$	2004 Number	2003 Number
<b>Directors:</b>				
28 September 2000	29 March 2001 to 8 October 2004	0.2333	121,500,000	121,500,000
31 August 2001	1 March 2002 to 31 August 2005	0.3233	19,500,000	19,500,000
20 December 2002	2 December 2003 to 1 June 2007	0.3833	30,000,000	30,000,000
<b>Employees:</b>				
28 September 2000	28 March 2001 to 27 March 2005	0.2333	14,135,000	22,300,000
22 June 2001	22 December 2001 to 21 December 2005	0.3433	1,500,000	1,740,000
31 August 2001	1 March 2002 to 28 February 2006	0.3233	5,400,000	6,000,000
20 December 2002	2 October 2003 to 1 April 2007	0.3833	3,000,000	3,000,000
4 April 2003	5 October 2003 to 4 April 2007	0.363	24,000,000	24,000,000
11 March 2004	24 September 2004 to 7 April 2008	0.43	30,200,000	—
Total			<b>249,235,000</b>	228,040,000

# Notes to the accounts

(Expressed in Hong Kong dollars)

## 29 Share capital (continued)

Notes: (continued)

(a) (continued)

(iii) Details of share options granted during the year, all of which were granted for \$1 consideration

Exercise period	Exercise price HK\$	2004 Number	2003 Number
24 September 2004 to 7 April 2008	0.43	30,200,000	—
5 October 2003 to 4 April 2007	0.363	—	24,000,000
2 October 2003 to 1 April 2007 (Note)	1.15	—	1,000,000
2 December 2003 to 1 June 2007 (Note)	1.15	—	10,000,000

Note: These share options were granted before the Company's bonus issue on the basis of 2 bonus shares for every 1 share on 28 March 2003.

(iv) Details of share options exercised during the year

Exercise date	Exercise price HK\$	Proceeds received HK\$	2004 Number
10 July 2003	0.2333	76,989	330,000
21 July 2003	0.2333	104,985	450,000
4 August 2003	0.2333	55,992	240,000
21 August 2003	0.2333	34,995	150,000
1 September 2003	0.2333	148,145	635,000
8 September 2003	0.2333	27,996	120,000
15 September 2003	0.3233	38,796	120,000
25 September 2003	0.2333	27,996	120,000
3 October 2003	0.2333	13,998	60,000
6 October 2003	0.2333	10,499	45,000
17 November 2003	0.2333	23,330	100,000
15 January 2004	0.2333	34,995	150,000
16 January 2004	0.3233	38,796	120,000
1 March 2004	0.2333	4,666	20,000
1 March 2004	0.3433	82,392	240,000
12 March 2004	0.2333	34,995	150,000
16 April 2004	0.2333	10,499	45,000
19 April 2004	0.3233	38,796	120,000
6 May 2004	0.2333	524,925	2,250,000
3 June 2004	0.2333	524,925	2,250,000
<b>Total</b>		<b>1,858,710</b>	<b>7,715,000</b>

(b) On 7 May 2004, 102,631,579 shares of \$0.1 each were issued at a premium of \$0.28 each to increase the general working capital of the Company. These shares rank pari passu with the existing shares.

# Notes to the accounts

For the financial year ended 30 June 2004

## 30 Reserves

	Group					
	Share premium	Special reserve	Capital reserve on consolidation	Exchange reserve	Retained profits	Total
	(Note (a))	(Note (b))	(Note (c))	(Note (e))		
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
At 1 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	(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 5)	—	—	7,267,739	—	—	7,267,739
Dividends paid						
— 2002, final	—	—	—	—	(20,819,082)	(20,819,082)
— 2003, interim	—	—	—	—	(10,410,441)	(10,410,441)
At 30 June 2003	361,776	39,800,000	62,644,511	(3,129)	56,953,137	159,756,295
Attributable to:					(Note (f))	
— 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 30 June 2003	361,776	39,800,000	62,644,511	(3,129)	56,953,137	159,756,295

# Notes to the accounts

(Expressed in Hong Kong dollars)

## 30 Reserves (continued)

	Group					
	Share premium (Note (a))	Special reserve (Note (b))	Capital reserve on consolidation (Note (c))	Exchange reserve (Note (e))	Retained profits	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
At 1 July 2003	361,776	39,800,000	62,644,511	(3,129)	56,953,137	159,756,295
Share premium arising on						
— exercise of share options	1,087,210	—	—	—	—	1,087,210
— share issue	28,736,842	—	—	—	—	28,736,842
Impairment of goodwill previously taken directly to reserves (Note 5)	—	—	774,377	—	—	774,377
Exchange differences on translation of accounts of overseas subsidiaries	—	—	—	(13,987)	—	(13,987)
Released upon disposal of subsidiaries	—	—	(27,348)	—	—	(27,348)
Profit attributable to shareholders	—	—	—	—	81,432,085	81,432,085
Dividends paid						
— 2003, final (Note (d))	—	—	—	—	(10,323,114)	(10,323,114)
— 2004, interim	—	—	—	—	(10,324,863)	(10,324,863)
<b>At 30 June 2004</b>	<b>30,185,828</b>	<b>39,800,000</b>	<b>63,391,540</b>	<b>(17,116)</b>	<b>117,737,245</b>	<b>251,097,497</b>
					(Note (f))	
Attributable to:						
— the Company and its subsidiaries	30,185,828	39,800,000	63,391,540	(17,116)	117,656,208	251,016,460
— associates	—	—	—	—	309,037	309,037
— jointly controlled entity	—	—	—	—	(228,000)	(228,000)
<b>At 30 June 2004</b>	<b>30,185,828</b>	<b>39,800,000</b>	<b>63,391,540</b>	<b>(17,116)</b>	<b>117,737,245</b>	<b>251,097,497</b>

# Notes to the accounts

For the financial year ended 30 June 2004

## 30 Reserves (continued)

	Company			
	Contributed surplus (Note (g)) HK\$	Share premium (Note (a)) HK\$	Retained profits/ (accumulated losses) HK\$	Total HK\$
At 1 July 2002	271,022,350	168,250,352	30,410,992	469,683,694
Share premium arising on exercise of share options	—	607,776	—	607,776
Bonus issue	(39,712,470)	(168,496,352)	—	(208,208,822)
Loss for the year	—	—	(71,346,376)	(71,346,376)
Dividends paid				
— 2002, final	—	—	(20,819,082)	(20,819,082)
— 2003, interim	—	—	(10,410,441)	(10,410,441)
			(Note (f))	
At 30 June 2003	231,309,880	361,776	(72,164,907)	159,506,749
At 1 July 2003	231,309,880	361,776	(72,164,907)	159,506,749
Share premium arising on				
— exercise of share options	—	1,087,210	—	1,087,210
— share issue	—	28,736,842	—	28,736,842
Profit for the year	—	—	82,931,288	82,931,288
Dividends paid				
— 2003, final (Note (d))	(10,323,114)	—	—	(10,323,114)
— 2004, interim	—	—	(10,324,863)	(10,324,863)
			(Note (f))	
<b>At 30 June 2004</b>	<b>220,986,766</b>	<b>30,185,828</b>	<b>441,518</b>	<b>251,614,112</b>

### Notes:

- (a) The application of share premium account is governed by Section 40 of the Companies Act 1981 of Bermuda.
- (b) 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 10 August 2000.
- (c) The capital reserve on consolidation of the Group represents goodwill and negative goodwill arising from acquisitions prior to 1 July 2001. As at 30 June 2004, the balance comprises no goodwill (2003: \$774,377) and negative goodwill of \$63,391,540 (2003: \$63,418,888). During the year, goodwill of \$774,377 (2003: \$7,267,739) were impaired and negative goodwill of \$27,348 (2003: \$Nil) were released upon disposal of subsidiary.
- (d) On 12 December 2003, final dividend for the year ended 30 June 2003 of \$0.33 HK cents per ordinary share totalling \$10,323,114 was paid to shareholders. The amount comprised prior year's proposed final dividend of \$10,322,784 plus an additional final dividend of \$330 paid for those shares issued on the exercise of share options during the period from 14 October 2003 to 26 November 2003.

# Notes to the accounts

(Expressed in Hong Kong dollars)

## 30 Reserves (continued)

Notes: (continued)

- (e) The exchange reserve has been set up and will be dealt with in accordance with the accounting policies adopted for foreign currency translation.
- (f) Retained profits/(accumulated losses) represent:

	Group		Company	
	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
2004 proposed final dividend (Note (g))	<b>21,694,894</b>	—	—	—
2003 proposed final dividend (Note (g))	—	10,322,784	—	—
Others	<b>96,042,351</b>	46,630,353	<b>441,518</b>	(72,164,907)
	<b>117,737,245</b>	56,953,137	<b>441,518</b>	(72,164,907)

- (g) The contributed surplus of the Company represents the difference of \$271,022,350 between the fair value of the shares of the subsidiary acquired pursuant to the Reorganisation on 10 August 2000 over the nominal value of the Company's shares issued in exchange for, net of \$39,712,470 which was capitalised as a result of the bonus issue in prior year.

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.

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

	2004 HK\$	2003 HK\$
2004 proposed final dividend (Note (f))	<b>21,694,894</b>	—
2003 proposed final dividend (Note (f))	—	10,322,784
Others	<b>199,291,872</b>	220,987,096
	<b>220,986,766</b>	231,309,880

## 31 Contingent liabilities

	Company	
	2004 HK\$	2003 HK\$
Guarantees for banking facilities to subsidiaries	<b>247,200,000</b>	252,200,000

# Notes to the accounts

For the financial year ended 30 June 2004

## 32 Commitments

### (a) Commitments under operating leases

#### (i) As lessee

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

	Land and buildings		Office equipment	
	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
Not later than 1 year	<b>3,646,676</b>	5,977,941	<b>441,600</b>	408,000
Later than 1 year and not later than 5 years	<b>3,064,761</b>	10,953,329	<b>1,619,200</b>	1,496,000
	<b>6,711,437</b>	16,931,270	<b>2,060,800</b>	<b>1,904,000</b>

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. During the current year, 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.

#### (ii) As lessor

As at 30 June 2004, the Group had future minimum lease payments receivable under non-cancellable operating lease as follows:

	2004 HK\$	2003 HK\$
Not later than 1 year	<b>321,200</b>	262,800
Later than 1 year but not late than 5 years	—	350,400
	<b>321,200</b>	613,200

### (b) Other commitments

- (i) The Group has entered into agreements with a company for subscription to its shares and warrants. The subscription is conditional on the company being successfully listed on the Toronto Stock Exchange on or before 29 December 2004 and fulfilling other conditions as set out in the agreements. The deadline can be extended to 29 April 2005 if certain conditions are met. The consideration for subscription comprised listed shares and unlisted warrants of a company listed on the Toronto Stock Exchange and cash. The consideration shares, warrants and cash were held by third party lawyers as escrow agents until the conditions for subscription are fully satisfied.

# Notes to the accounts

(Expressed in Hong Kong dollars)

## 32 Commitments (continued)

- (b) Other commitments (continued)
- (ii) The Group has entered into an agreement with a PRC property developer for purchase of an office premise located in the PRC. The Group has committed to pay the remaining balance of RMB5,910,000 (approximately HK\$5.5 million equivalent) representing 60% of the total purchase consideration.
- (iii) The Group has entered into an agreement with Shanxi Securities Company Limited and China Gaoxin Investment Group Corporation to establish a fund management business in the PRC market. Pursuant to the agreement, an application has been submitted to China Securities Regulatory Commission to set up a joint venture fund management company ("JV Company") based in Shanghai. The Group is committed to inject an equivalent of RMB33 million for a 33% equity interest in the JV Company.

## 33 Notes to the consolidated cash flow statement

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

	2004 HK\$	2003 HK\$
Profit/(loss) from operations	<b>69,506,268</b>	(280,256,461)
Interest income	<b>(11,344,080)</b>	(20,053,475)
	<b>58,162,188</b>	(300,309,936)
Interest received	<b>11,344,080</b>	20,053,475
Amortisation of intangible assets	<b>776,786</b>	1,045,839
Depreciation	<b>3,308,586</b>	3,444,658
Deficit on revaluation of land and building	—	4,582,449
Surplus on revaluation of investment property	<b>(5,000,000)</b>	—
Loss on disposal of long term investments	—	7,785,142
Impairment losses	<b>25,047,783</b>	45,167,739
Gain on disposal of subsidiaries	<b>(25,043)</b>	—
Net loss on disposal of fixed assets	<b>362,420</b>	368,968
Provision for doubtful debts (net)	<b>2,413,204</b>	7,238,139
Profit/(loss) from operations before working capital changes	<b>96,390,004</b>	(210,623,527)
Increase in other assets	<b>(108,193)</b>	(525,062)
(Increase)/decrease in marketable securities	<b>(35,739,087)</b>	162,210,592
Decrease/(increase) in other investments	<b>1,899,997</b>	(3,975,854)
Decrease/(increase) in accounts, loans and other receivables	<b>44,607,501</b>	(29,816,298)
Decrease/(increase) in amounts due from related companies	<b>62,306</b>	(45,109)
Decrease in accounts payable and accruals	<b>(37,568,433)</b>	(5,900,650)
(Decrease)/increase in short positions in marketable securities	<b>(15,688,640)</b>	15,688,640
Effect of foreign exchange changes	<b>(13,005)</b>	2,373
Net cash inflow/(outflow) from operations	<b>53,842,450</b>	(72,984,895)

# Notes to the accounts

For the financial year ended 30 June 2004

## 33 Notes to the consolidated cash flow statement (continued)

### (b) Disposal of subsidiaries

	<b>Group 2004 HK\$</b>
Cash consideration received	<b>1,559,611</b>
Less: Net assets disposed of: Bank balances and cash	<b>(3,062,580)</b>
Add: Minority interest Negative goodwill	<b>1,500,664 27,348</b>
	<b>1,528,012</b>
Gain on disposal of subsidiaries	<b>25,043</b>

### (c) Analysis of net cash outflow in respect of the disposal of subsidiaries

	<b>Group 2004 HK\$</b>
Consideration received in cash	<b>1,559,611</b>
Bank balances and cash disposed of	<b>(3,062,580)</b>
Net cash outflow in respect of the disposal of subsidiaries	<b>(1,502,969)</b>

### (d) Major non-cash transactions

During the year, the Group has exchanged certain convertible bonds for new convertible bonds issued by the same issuer (Note 19(a)).

In the prior year, the Company issued 2,082,088,218 new shares of \$0.1 each pursuant to the bonus issue. In addition, the Group exchanged certain convertible bonds for new convertible bonds issued by the same issuer.

# Notes to the accounts

(Expressed in Hong Kong dollars)

## 34 Related party and connected party transactions

In addition to those disclosed elsewhere in the accounts, the following is a summary of significant related party and connected party (as defined in the Rules Governing the Listing of Securities on the Stock Exchange) transactions which were carried out in the normal course of the Group's business:

	Note	2004 HK\$	2003 HK\$
Brokerage commission earned on securities dealing	(a)	<b>857,977</b>	255,099
Common office expenses recharged	(b)	<b>317,557</b>	433,135
Rental income earned	(c)	—	426,681
Consultancy and management fees received	(d)	<b>1,296,000</b>	1,044,000
Secretarial fee earned	(e)	<b>182,148</b>	250,940
Management fee paid	(f)	<b>(315,000)</b>	—
Consultancy fee paid	(g)	<b>(72,000)</b>	(468,000)
Purchase of fixed assets	(h)	<b>(52,500)</b>	(836,281)

Notes:

- (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 primarily based on the percentage of floor area occupied by each company.
- (c) 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 in prior year.
- (d) 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.
- (e) 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.
- (f) Management fee was paid to fellow subsidiaries for the provision of management and administrative services at a rate mutually agreed between the parties involved.
- (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 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.

# Notes to the accounts

For the financial year ended 30 June 2004

## 35 Particulars of subsidiaries

The following is a list of the significant subsidiaries as at 30 June 2004:

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 \$20	Provision of corporate services	—	100%
Billion On Development Limited *	Hong Kong	Ordinary shares \$10,000	Property holding	—	100%
Festival Development Limited	British Virgin Islands	Ordinary share US\$1	Investment holding	—	100%
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 \$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 \$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 \$10,000,000	Electronic securities brokerage	—	100%
Kingsway Financial Services Group Limited (formerly known as Kingsway SW Securities Limited)	Hong Kong	Ordinary shares \$300,000,000	Securities brokerage	—	100%
Kingsway Fund Management Limited	Hong Kong	Ordinary shares \$47,000,000	Fund management	—	100%
Kingsway Lion Spur Technology Limited	British Virgin Islands/ Hong Kong	Ordinary share US\$1	Securities investment	—	100%

# Notes to the accounts

(Expressed in Hong Kong dollars)

## 35 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 SBF Investment Company Limited	British Virgin Islands	Ordinary shares US\$10,000	Securities investment	—	51%
Kingsway SBF Investment Management Company Limited	British Virgin Islands/ Hong Kong	Ordinary share US\$100	Provision of investment advisory services	—	51%
Kingsway SW Asset Management Limited	British Virgin Islands/ Hong Kong	Ordinary shares US\$375,000	Provision of investment advisory services	—	100%
Kingsway SW Finance Limited *	Hong Kong	Ordinary shares \$50,000	Provision of loan services and financing	—	100%
Kingsway SW Futures Limited	Hong Kong	Ordinary shares \$8,000,000	Futures and commodities brokerage	—	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%
Overachiever Limited	British Virgin Islands	Ordinary share US\$1	Securities investment	—	100%
Rich Global 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 KPMG. The aggregate total assets and profit before taxation of these subsidiaries contributed to approximately 8% and 3% of the Group's total assets and profit before taxation respectively.

## 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.