Notes to the Financial Statements

For the year ended 30 June 2006 (Expressed in Hong Kong dollars)

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.

The address of the registered office and the principal place of business of the Company are disclosed in the Corporate Information of the annual report.

The principal activities of the Company and its significant subsidiary companies are disclosed in the Director's Report of the annual report and in note 35.

2 Significant accounting policies

(a) STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") 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 financial statements 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.

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs for the current and prior accounting periods reflected in these financial statements is provided in note 3.

2 Significant accounting policies (Continued)

(b) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 30 June 2006 comprise the Company and its subsidiaries and special purpose entities (together referred to as the "Group") and the Group's interest in associates and a jointly controlled entity.

The Group has adopted merger accounting for the Reorganisation as detailed in note 1. The consolidated financial statements 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.

The financial statements have been prepared under the historical cost convention except that, as explained in the accounting policies below, buildings held for own use, investment properties and financial assets/(liabilities) held at fair value through profit or loss are stated at fair value.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in this year are discussed in note 38.

2 Significant accounting policies (Continued)

(c) 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 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.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses attributable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable 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 additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

(d) ASSOCIATES AND JOINTLY CONTROLLED ENTITY

An associate is a company in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

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.

2 Significant accounting policies (Continued)

(d) ASSOCIATES AND JOINTLY CONTROLLED ENTITY (Continued)

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted hereafter for the post acquisition change in the Group's share of the associate's or the jointly controlled entity's net assets, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associates and jointly controlled entities for the year, including any impairment loss on goodwill relating to the investment in associates and jointly controlled entities recognised for the year.

When the Group's share of losses exceeds its interest in the associate or the jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or the jointly controlled entity. For this purpose, the Group's interest in the associate or the jointly controlled entity is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entity are eliminated to the extent of the Group's interest in the associate or jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the income statement.

(e) SPECIAL PURPOSE ENTITY

A special purpose entity is an entity created to accomplish a narrow and well-defined objective. A special purpose entity includes investment in a unit trust fund. An investment in a unit trust fund is consolidated when the Group has the right to obtain majority of the benefits and risks of the unit trust fund. The net assets attributable to minority unitholders of the consolidated unit trust fund are presented as liabilities in the Group's consolidated balance sheet as the redeemable units issued by the unit trust fund provide the unitholders with right to require redemption for cash, giving rise to financial liabilities. Net changes in net asset attributable to minority unitholders are presented as finance costs in the consolidated income statement.

(f) GOODWILL

Goodwill represents the excess of the cost of a business combination or an investment in an associate or a jointly controlled entity over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment. Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate or a jointly controlled entity is recognised immediately in the income statement.

2 Significant accounting policies (Continued)

(f) GOODWILL (Continued)

Goodwill arising on acquisitions prior to 1 July 2001 continues to be held in reserves, and will be charged to the retained profits at the time when the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

On disposal of a cash-generating unit, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(g) FINANCIAL INSTRUMENTS

(i) Classification and measurement

The Group classifies its financial instruments into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. The financial instruments are classified under the follow categories:

Fair value through profit or loss

This category comprises financial assets and financial liabilities held for trading, and those designated at fair value through profit or loss under initial recognition. Trading financial instruments are financial assets or financial liabilities which are acquired or incurred principally for the purpose of trading, or are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Non-hedging derivatives are accounted for as trading instruments.

Financial assets and liabilities under this category are classified as current assets and are initially stated at fair value. At each balance sheet date, the fair value is remeasured, with any resultant gain or loss being recognised in income statement.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity where the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are initially recognised in the balance sheet at fair value plus transaction costs.

Subsequently, they are stated in the balance sheet at amortised cost less impairment losses (see note 2(k)).

2 Significant accounting policies (Continued)

(g) FINANCIAL INSTRUMENTS (Continued)

(i) Classification and measurement (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables mainly comprise accounts and other receivables, secured margin loans and secured loans.

Loans and receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less impairment losses for bad and doubtful debts (see note 2(k)) except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such case, the receivables are stated at cost less impairment loss for bad and doubtful debts (see note 2(k)).

(ii) Fair value measurement principles

The fair value of financial instruments is based on their quoted market prices at the balance sheet date without any deduction for estimated future selling costs. Fair values of financial assets are normally based on current bid prices, while financial liabilities are based on current asking prices.

If a quoted market price is not available on a recognised stock exchange or from a broker/dealer for non-exchange-traded financial instruments, the fair value of the instruments is estimated using valuation techniques that provide a reliable estimate of prices which could be obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the balance sheet date applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data at the balance sheet date.

(h) INTANGIBLE ASSETS (OTHER THAN GOODWILL)

Trading rights, exchange seats and club debentures

The trading rights in the Stock Exchange, the B-Shares Special Seat of Shenzhen Stock Exchange, the B-Shares Tangible Trading Seat of Shanghai Stock Exchange and non-redeemable club memberships are recognised as intangible assets in the balance sheet and are stated at cost less impairment losses (see note 2(k)). They are not amortised as they have indefinite useful lives.

2 Significant accounting policies (Continued)

(i) INVESTMENT PROPERTIES

Investment properties are completed properties which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. Investment properties are stated at fair value based on independent professional valuation at the balance sheet. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in the income statement.

(j) OTHER PROPERTY, PLANT AND EQUIPMENT

(i) Buildings held for own use

Buildings held for own use are stated in the balance sheet at their revalued amount, being their fair value at the date of the revaluation less any subsequent accumulated depreciation. Revaluations are performed with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the balance sheet date.

Changes arising on the revaluation of building held for own use are generally dealt with in reserves. The only exceptions are as follows:

– when a deficit arises on revaluation, it will be charged to income statement to the extent that it exceeds the amount held in the reserve in respect of that same asset immediately prior to the revaluation; and

– when a surplus arises on revaluation, it will be credited to income statement to the extent that a deficit on revaluation in respect of that same asset had previously been charged to income statement.

Gains or losses arising from the retirement or disposal of buildings are determined as the difference between the net disposal proceeds and the carrying amount of this item and are recognised in income statement on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits.

(ii) Equipment

Equipment, comprising leasehold improvements, furniture and fixtures, office equipment and motor vehicles are stated at cost less accumulated depreciation and impairment losses (see note 2(k)).

The gain or loss on disposal of equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

2 Significant accounting policies (Continued)

(j) OTHER PROPERTY, PLANT AND EQUIPMENT (Continued)

(iii) Depreciation

Depreciation is calculated to write off the cost or valuation of items of buildings held for own use and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

Buildings held for own use	Shorter of the remaining lease terms or 50 years
Leasehold improvements	Shorter of the unexpired lease terms or 5 years
Furniture and fixtures	20%
Office equipment	20%
Motor vehicles	20%

Both the useful life of an asset and its residual value, if any, are reviewed annually. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(k) IMPAIRMENT

Goodwill and intangible assets that have indefinite useful lives are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to depreciation and amortisation and financial assets that are stated at cost or amortised cost are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there is separately identifiable cash flows (cash-generating units) if an impairment test cannot be performed for an individual asset.

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to income statement in the year in which the reversals are recognised.

2 Significant accounting policies (Continued)

(l) ACCOUNTS AND OTHER PAYABLES

Accounts and other payables are initially recognised at fair value and thereafter stated at amortised cost.

(m) INTEREST-BEARING BORROWINGS

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in income statement over the period of the borrowings using the effective interest method.

(n) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(o) 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.

2 Significant accounting policies (Continued)

(o) EMPLOYEE BENEFITS (Continued)

(iii) Defined contribution pension plan 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 income statement as incurred.

(iv) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the income statement for the year of the review. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(p) 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 income statement 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.

2 Significant accounting policies (Continued)

(p) INCOME TAX (Continued)

(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, 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.

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 profits 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 profits 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.

2 Significant accounting policies (Continued)

(p) INCOME TAX (Continued)

(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.

(q) PROVISIONS AND CONTINGENT LIABILITIES

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 financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will be recognised as a provision.

2 Significant accounting policies (Continued)

(r) 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 income statement 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.

(ii) Interest income is recognised as it accrues using the effective interest method.

(iii) Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

Dividend income from unlisted investments is recognised when the shareholder's 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.

(s) 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 income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

Exchange difference relating to financial instruments at fair value through profit or loss and derivative financial instruments are included in gains and losses on investments and net gain/(loss) on derivatives, respectively. All other exchange differences relating to monetary items are presented separately in the income statement.

2 Significant accounting policies (Continued)

(s) TRANSLATION OF FOREIGN CURRENCIES (Continued)

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of foreign operations acquired on or after 1 July 2005, are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity. Goodwill arising on consolidation of a foreign operation acquired before 1 July 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

(t) 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.

Where the Group has the use of assets held under operating leases, payments made under the lease are charged to income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.

(u) RELATED PARTIES

For the purposes of these financial statements, 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 (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

2 Significant accounting policies (Continued)

(v) SEGMENT REPORTING

A segment is a distinguishable component of the Group that is engaged either in providing services (business segment), or in providing services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include financial instruments, trade receivables and other properties and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidated process, except to the extent that such intra-Group balances and transactions are between Group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated item represents tax balances of the Group.

3 Changes in accounting policies

The Group has adopted the new/revised HKFRSs and HKASs which are pertinent to its operations and have resulted in changes to the Group's accounting policies. The 2005 comparatives have been restated as required, in accordance with the relevant requirements.

The adoption of the new/revised HKFRSs and HKASs has the following impact on the Group's accounting policies:–

(a) FINANCIAL INSTRUMENTS (HKAS 32, FINANCIAL INSTRUMENTS: DISCLOSURE AND PRESENTATION AND HKAS 39, FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT)

The adoption of HKAS 32 and HKAS 39 has resulted in a change in the accounting policy for recognition, measurement, derecognition, presentation and disclosures of financial instruments.

In prior years, investments of the Group were classified as "long-term investments", "held-to-maturity securities", "marketable securities" and "other investments" respectively. Long-term investments were stated at cost less provision for impairment losses. Held-to-maturity securities were stated at cost plus/less any premium/discount amortised to date less any provision for impairment. Marketable securities and other investments were stated at fair value. Fair value of listed investments were determined based on quoted market closing prices less liquidity or other discounts as considered appropriate.

With effect from 1 July 2005, in order to comply with HKAS 32 and HKAS 39, the Group's financial assets are reclassified as "financial assets at fair value through profit or loss", "held-to-maturity investments" or "loans and receivables". The classification depends on the purpose for which the assets are acquired. Held-to-maturity investments and loans and receivables are carried at amortised cost using the effective interest method less provision for impairment. Financial assets at fair value through profit or loss are carried at fair value. Fair values for listed or quoted investments are determined based on their current quoted bid prices for long positions and current asking prices for short positions. Adjustments to the carrying amounts on the adoption of HKAS 39 are recognised as an adjustment to the opening balance of retained profits and minority interests as at 1 July 2005 as shown in note 31. Comparative amounts have not been restated as this is prohibited by the transitional arrangements in HKAS 39. The change in classification and presentation of financial instruments have been adopted retrospectively with comparatives restated as shown in note 3(h) in accordance with HKAS 32.

3 Changes in accounting policies (Continued)

(b) INVESTMENT PROPERTIES (HKAS 40, INVESTMENT PROPERTY AND HK(SIC) INTERPRETATION 21, INCOME TAXES – RECOVERY OF REVALUED NON-DEPRECIABLE ASSETS)

(i) Timing of recognition of movements in fair value in the income statement

The adoption of revised HKAS 40 has resulted in a change in accounting policy for the Group's investment properties. In prior years, increases in the valuation of investment properties were credited to the investment property revaluation reserve while decreases in the valuation of investment properties were first set off against the surplus of the investment property revaluation reserve and thereafter charged to the income statement. Following the adoption of HKAS 40, all changes in valuation of investment properties are to be recognised in the income statement.

Further details of the new policy for investment property are set out in note 2(i).

(ii) Measurement of deferred tax on movements in fair value

In prior years, the Group was required to apply the tax rate that would be applicable to the sale of investment property to determine whether any amounts of deferred tax should be recognised on the revaluation of investment property. Consequently, deferred tax was only provided to the extent that tax allowance already given would be clawed back if the property were disposed of at its carrying value, as there would be no additional tax payable on disposal.

As from 1 July 2005, in accordance with HK(SIC) Interpretation 21 ("HK(SIC) – Int 21"), the Group recognises deferred tax on movements in the value of an investment property using tax rates that are applicable to the property's use, if the Group has no intention to sell it and the property would have been depreciable had the Group not adopted the fair value model.

Further details of the policy for deferred tax are set out in note 2(p).

The changes in accounting policies relating to investment property had no effect on the comparative amounts as there was no investment property as at 30 June 2005.

(c) AMORTISATION OF INTANGIBLE ASSETS (HKAS 38, INTANGIBLE ASSETS)

In prior years, trading rights in the Stock Exchange and exchange seats of Shenzhen Stock Exchange and Shanghai Stock Exchange were stated at cost less accumulated amortisation and impairment losses. They were amortised on a straight-line basis over the years.

With effective from 1 July 2005, in order to comply with HKAS 38, these rights and seats are no longer amortised as they have indefinite useful lives. Accumulated amortisation as at 30 June 2005 has been eliminated with a corresponding decrease in the cost of these intangible assets as shown in note 15.

3 Changes in accounting policies (Continued)

(d) AMORTISATION OF POSITIVE AND NEGATIVE GOODWILL (HKFRS 3, BUSINESS COMBINATIONS AND HKAS 36, IMPAIRMENT OF ASSETS)

Prior to the adoption of HKFRS 3 and HKAS 36, goodwill on acquisitions was included as intangible assets and was amortised using the straight-line basis over its estimated useful life or was taken to capital reserve.

Following the adoption of HKFRS 3 and HKAS 36, goodwill is no longer amortised but instead is subject to rigorous annual impairment testing, including in the year of its initial recognition. Impairment losses are recognised when the carrying amount of the cash-generating unit to which the goodwill has been allocated exceeds its recoverable amount.

Also, in accordance with the transitional arrangements under HKFRS 3, goodwill which had previously been taken directly to reserves (i.e. goodwill which arose before 1 January 2001) is not recognised in the income statement on disposal or impairment of the acquired business, or under any other circumstances.

(e) EMPLOYEE SHARE OPTION SCHEME (HKFRS 2, SHARE-BASED PAYMENT)

The adoption of HKFRS 2 results in a change in the accounting policy for share-based transactions. In prior years, no amounts were recognised when employees (including directors) were granted share options over shares in the Company. If the employees choose to exercise the options, the nominal amount of share capital and share premium are credited only to the extent of the option's exercise price receivable.

With effect from 1 July 2005, in order to comply with HKFRS 2, the Group has adopted a new policy for employee share options. Under the new policy, the Group recognises the fair value of such share options as an expense with a corresponding increase recognised in a capital reserve within equity. Further details of the new policy are set out in note 2(o)(iv).

The new accounting policy has been applied retrospectively with comparatives restated, except the Group has taken advantage of the transitional provisions set out in HKFRS 2, under which the new recognition and measurement policies have not been applied to options granted to employees after 7 November 2002 but which had vested before 1 July 2005.

The adjustments for each financial statement line affected for the years ended 30 June 2006 and 2005 are set out in note 3(h). No adjustments to the opening balances as at 1 July 2004 are required as no options existed at that time which were unvested at 1 July 2005.

3 Changes in accounting policies (Continued)

(f) CHANGES IN PRESENTATION (HKAS 1, PRESENTATION OF FINANCIAL STATEMENTS)

The adoption of HKAS 1 has affected the presentation of minority interests and share of net after-tax results of associates.

– In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as a deduction from net assets. Minority interests in the results of the Group for the period were also separately presented in the income statement as a deduction before arriving at the profit attributable to shareholders.

  With effect from 1 July 2005, following the adoption of HKAS 1, minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity shareholders of the Company, and minority interests in the results of the Group for the year are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between the minority interests and the equity shareholders of the Company.

– In prior years, the Group's share of taxation of associates accounted for using the equity method was included as part of the Group's income tax in the consolidated income statement. With effect from 1 July 2005, in accordance with the implementation guidance in HKAS 1, the Group has changed the presentation and includes the share of taxation of associates accounted for using the equity method in the shares of profit or loss reported in the consolidated income statement before arriving at the Group's profit or loss before tax.

The above changes in the presentation of minority interests and shares of associates in the consolidated balance sheet, consolidated income statement and consolidated statement of changes in equity have been applied retrospectively with comparatives restated as shown in note 3(h).

(g) CONSOLIDATION OF SPECIAL PURPOSE ENTITIES (HK(SIC) – INTERPRETATION 12, CONSOLIDATION – SPECIAL PURPOSE ENTITIES)

In prior years, the Group's investment in a unit trust fund ("the Fund"), where the Group held more than 50% interest in the Fund's issued units, was classified as other investment carried at fair value. With effect from 1 July 2005, in order to comply with HK(SIC) – Interpretation 12 ("HK(SIC) – Int 12"), the Fund is consolidated into the consolidated financial statements as the Fund is considered a special purpose entity as the Group has the right to obtain the majority of the benefits and risks of the Fund. Further details of the policy for consolidation of special purpose entities are set out in note 2(e).

The new accounting policy has been applied retrospectively with comparatives restated as shown in note 3(h).

3 Changes in accounting policies (Continued)

(h) RESTATEMENT OF PRIOR PERIODS AND OPENING BALANCES

The following tables disclose the adjustments that have been made in accordance with the transitional provisions of the respective HKFRSs to each of the line items in the consolidated income statement, consolidated balance sheet and consolidated equity as previously reported for the year ended 30 June 2005. Details of these changes are set out in notes 3(a) to 3(g).

Consolidated income statement for the year ended 30 June 2005

		Effect of new policies – increase/(decrease) in profit for the year			
	2005 (as previously reported)	HKFRS 2 (note 3(e))	HKAS 1 (note 3(f))	HK(SIC)-Int 12 (note 3(g))	2005 (as restated)
Turnover					
Net gain on disposal of financial assets at fair value through profit or loss and remeasurement to fair value	$ 80,147,145	$ –	$ –	$ 788,758	$ 80,935,903
Commission and fee income	91,677,402	–	–	(133,991)	91,543,411
Interest and dividend income	16,398,541	–	–	383,355	16,781,896
	$188,223,088	$ –	$ –	$ 1,038,122	$189,261,210
Other income	8,970,257	–	–	(107,143)	8,863,114
	$197,193,345	$ –	$ –	$ 930,979	$198,124,324
Operating expenses					
Commission expenses	(15,462,134)	–	–	–	(15,462,134)
General and administrative expenses	(110,251,639)	(32,809)	–	(446,277)	(110,730,725)
Impairment losses on intangible assets	(105,294)	–	–	–	(105,294)
Profit from operations	$ 71,374,278	$ (32,809)	$ –	$ 484,702	$ 71,826,171
Finance costs	(1,374,499)	–	–	(484,702)	(1,859,201)
	$ 69,999,779	$ (32,809)	$ –	$ –	$ 69,966,970
Share of profits of associates	4,416,204	–	(617,297)	–	3,798,907
Share of losses of a jointly controlled entity	(72,000)	–	–	–	(72,000)
Profit before taxation	$ 74,343,983	$ (32,809)	$ (617,297)	$ –	$ 73,693,877
Income tax	11,729,473	–	617,297	–	12,346,770
	$ 86,073,456	$ (32,809)	$ –	$ –	$ 86,040,647
Minority interests	(1,466,602)	–	1,466,602	–	–
Profit for the year	$ 84,606,854	$ (32,809)	$ 1,466,602	$ –	$ 86,040,647
Attributable to:					
Equity shareholders of the Company	$ 84,606,854	$ (32,809)	$ –	$ –	$ 84,574,045
Minority interests	–	–	1,466,602	–	1,466,602
	$ 84,606,854	$ (32,809)	$ 1,466,602	$ –	$ 86,040,647
Earnings per share					
– Basic	2.61 cents				2.61 cents
– Diluted	2.60 cents				2.60 cents

For the year ended 30 June 2006 (Expressed in Hong Kong dollars)

3 Changes in accounting policies (Continued)

(h) RESTATEMENT OF PRIOR PERIODS AND OPENING BALANCE (Continued)

Consolidated balance sheet at 30 June 2005

	2005 (as previously reported)	Effect of new policies – increase/(decrease) in net assets HKFRS 2 (note 3(e))	HKAS 1 (note 3(f))	HKAS 32 (note 3(a))	HK(SIC)-Int 12 (note 3(g))	2005 (as restated)
Non-current assets						
Intangible assets	$ 1,931,141	$ –	$ –	$ 620,000	$ –	$ 2,551,141
Interests in associates	40,606,807	–	–	–	–	40,606,807
Other financial assets	7,042,892	–	–	1,104,100	–	8,146,992
Long term investments	1,724,100	–	–	(1,724,100)	–	–
Other non-current assets	18,488,717	–	–	–	–	18,488,717
	$ 69,793,657	$ –	$ –	$ –	$ –	$ 69,793,657
Current assets						
Financial assets at fair value through profit or loss	$ –	$ –	$ –	$ 378,612,422	$ 4,808,053	$ 383,420,475
Marketable securities	332,943,494	–	–	(332,943,494)	–	–
Other investments	45,668,928	–	–	(45,668,928)	–	–
Accounts, loans and other receivables	524,009,155	–	–	–	479,247	524,488,402
Cash and cash equivalents	283,659,825	–	–	–	214,151	283,873,976
Other current assets	87,684	–	–	–	–	87,684
	$1,186,369,086	$ –	$ –	$ –	$ 5,501,451	$1,191,870,537
Current liabilities						
Financial liabilities at fair value through profit or loss	$ –	$ –	$ –	$ 21,187,500	$ –	$ 21,187,500
Short positions in marketable securities	21,187,500	–	–	(21,187,500)	–	–
Accruals, accounts and other payables	407,611,918	–	–	–	4,624,059	412,235,977
Bank loan and overdrafts	58,546,030	–	–	–	877,392	59,423,422
Other current liabilities	95,337,088	–	–	–	–	95,337,088
	$ 582,682,536	$ –	$ –	$ –	$ 5,501,451	$ 588,183,987
Net current assets	$ 603,686,550	$ –	$ –	$ –	$ –	$ 603,686,550
Total assets less current liabilities	$ 673,480,207	$ –	$ –	$ –	$ –	$ 673,480,207
Non-current liabilities	$ 6,972,475	$ –	$ –	$ –	$ –	$ 6,972,475
Minority interests	$ 36,028,650	$ –	$ (36,028,650)	$ –	$ –	$ –
NET ASSETS	$ 630,479,082	$ –	$ 36,028,650	$ –	$ –	$ 666,507,732
CAPITAL AND RESERVES						
Share capital	$ 324,822,391	$ –	$ –	$ –	$ –	$ 324,822,391
Equity compensation reserve	–	32,809	–	–	–	32,809
Other reserves	135,788,801	–	–	–	–	135,788,801
Retained profits	169,867,890	(32,809)	–	–	–	169,835,081
	$ 630,479,082	$ –	$ –	$ –	$ –	$ 630,479,082
Minority interests	–	–	36,028,650	–	–	36,028,650
TOTAL EQUITY	$ 630,479,082	$ –	$ 36,028,650	$ –	$ –	$ 666,507,732

3 Changes in accounting policies (Continued)

(h) RESTATEMENT OF PRIOR PERIODS AND OPENING BALANCE (Continued)

Consolidated equity at 1 July 2004

	2004 (as previously reported)	HKFRS 2 (note 3(e))	2004 (as restated)
Share capital	$ 324,822,391	$ –	$ 324,822,391
Equity compensation reserve	–	21,867	21,867
Other reserves	133,360,252	–	133,360,252
Retained profits	117,737,245	(21,867)	117,715,378
	$ 575,919,888	$ –	$ 575,919,888

(i) ESTIMATED EFFECT OF CHANGES IN ACCOUNTING POLICIES ON THE CURRENT PERIOD

The following tables provide estimates of the extent to which each of the line items in the consolidated income statement and consolidated balance sheet for the year ended 30 June 2006 is higher or lower than it would have been had the previous policies still been applied in the year, where it is practicable to make such estimates.

For the year ended 30 June 2006 (Expressed in Hong Kong dollars)

3 Changes in accounting policies (Continued)

(i) ESTIMATED EFFECT OF CHANGES IN ACCOUNTING POLICIES ON THE CURRENT PERIOD (CONTINUED)

Estimated effect on the consolidated income statement for the year ended 30 June 2006:

	Estimated effect of new policies – increase/(decrease) in profit for the year						
	HKFRS 2 (note 3(e))	HKAS 1 (note 3(f))	HKAS 38 (note 3(c))	HKAS 39 (note 3(a))	HKAS 40 & HK(SIC)-Int 21 (note 3(b))	HK(SIC)-Int 12 (note 3(g))	Total
Turnover							
Net gain on disposal of financial assets at fair value through profit or loss and remeasurement to fair value	$ –	$ –	$ –	$(22,823,720)	$ –	$ 3,730,673	$(19,093,047)
Commission and fee income	–	–	–	–	–	243,305	243,305
Interest and dividend income	–	–	–	–	–	414,314	414,314
	$ –	$ –	$ –	$(22,823,720)	$ –	$ 4,388,292	$(18,435,428)
Other income	–	–	–	–	–	7	7
	$ –	$ –	$ –	$(22,823,720)	$ –	$ 4,388,299	$(18,435,421)
Valuation gains on investment properties	–	–	–	–	47,778,422	–	47,778,422
Operating expenses							
General and administrative expenses	(32,807)	–	383,308	–	–	(1,159,042)	(808,541)
Profit from operations	$ (32,807)	$ –	$ 383,308	$(22,823,720)	$ 47,778,422	$ 3,229,257	$ 28,534,460
Finance costs	–	–	–	–	–	(3,229,257)	(3,229,257)
	$ (32,807)	$ –	$ 383,308	$(22,823,720)	$ 47,778,422	$ –	$ 25,305,203
Share of profits of associates	–	(128,519)	–	–	–	–	(128,519)
Profit before taxation	$ (32,807)	$ (128,519)	$ 383,308	$(22,823,720)	$ 47,778,422	$ –	$ 25,176,684
Income tax	–	128,519	–	–	(4,000,857)	–	(3,872,338)
Profit after taxation	$ (32,807)	$ –	$ 383,308	$(22,823,720)	$ 43,777,565	$ –	$ 21,304,346
Attributable to:							
Equity shareholders of the Company	$ (32,807)	$ –	$ 383,308	$(16,553,251)	$ 43,777,565	$ –	$ 27,574,815
Minority interests	–	–	–	(6,270,469)	–	–	(6,270,469)
	$ (32,807)	$ –	$ 383,308	$(22,823,720)	$ 43,777,565	$ –	$ 21,304,346
Earnings per share							
Basic							0.85 cent

3 Changes in accounting policies (Continued)

(i) ESTIMATED EFFECT OF CHANGES IN ACCOUNTING POLICIES ON THE CURRENT PERIOD (CONTINUED)

Estimated effect on the consolidated balance sheet at 30 June 2006:

	Estimated effect of new policies – increase/(decrease) in net assets					
	HKFRS 2 (note 3(e))	HKAS 38 (note 3(c))	HKAS 39 (note 3(a))	HKAS 40 & HK(SIC)-Int 21 (note 3(b))	HK(SIC)-Int 12 (note 3(g))	Total
Non-current assets						
Intangible assets	$ –	$ 383,308	$ –	$ –	$ –	$ 383,308
Current assets						
Financial assets at fair value through profit or loss	$ –	$ –	$ (3,201,248)	$ –	$ 6,920,514	$ 3,719,266
Accounts, loans and other receivables	–	–	–	–	3,318	3,318
Cash and cash equivalents	–	–	–	–	4,225,273	4,225,273
	$ –	$ –	$ (3,201,248)	$ –	$ 11,149,105	$ 7,947,857
Current liabilities						
Accruals, accounts and other payables	$ –	$ –	$ –	$ –	$ (11,149,105)	$ (11,149,105)
Net current assets	$ –	$ –	$ (3,201,248)	$ –	$ –	$ (3,201,248)
Total assets less current liabilities	$ –	$ 383,308	$ (3,201,248)	$ –	$ –	$ (2,817,940)
Non-current liabilities						
Deferred tax liabilities	$ –	$ –	$ –	$ (4,000,857)	$ –	$ (4,000,857)
NET ASSETS	$ –	$ 383,308	$ (3,201,248)	$ (4,000,857)	$ –	$ (6,818,797)
CAPITAL AND RESERVES						
Equity compensation reserve	$ 32,807	$ –	$ –	$ –	$ –	$ 32,807
Investment property revaluation reserve	–	–	–	(47,778,422)	–	(47,778,422)
Retained profits	(32,807)	383,308	(3,201,248)	43,777,565	–	40,926,818
	$ –	$ 383,308	$ (3,201,248)	$ (4,000,857)	$ –	$ (6,818,797)

For the year ended 30 June 2006 (Expressed in Hong Kong dollars)

4 Turnover

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

	2006	2005 (restated)
Net gain on disposal of financial assets at fair value through profit or loss and remeasurement to fair value	**$ 37,966,522**	$ 80,935,903
Commission and fee income on		
– stock and futures brokerage	**$ 40,218,248**	$ 34,633,224
– underwriting and placements in equity capital market	**28,767,794**	33,674,909
– corporate finance	**9,052,405**	14,494,194
– asset management	**1,990,201**	1,847,605
– miscellaneous fee income	**7,530,490**	6,893,479
	$ 87,559,138	$ 91,543,411
Interest and dividend income		
– interest from		
– bank deposits	**$ 4,549,585**	$ 1,902,278
– margin financing	**13,476,238**	6,437,925
– other financing	**572,378**	399,084
– unlisted debt securities	**37,096**	677,565
– others	**647,993**	230,150
– dividends from listed equity securities	**5,542,067**	7,134,894
	$ 24,825,357	$ 16,781,896
	$ 150,351,017	$ 189,261,210

5 Other income

	2006		2005 (restated)	
Rental income from investment properties	$	**–**	$	427,737
Gain on disposal of an investment property and equipment		**–**		4,080,000
Exchange gain		**–**		824,856
Reversal of impairment losses for bad and doubtful debts (net)		**–**		2,529,341
Reversal of impairment losses on intangible assets		**180,000**		–
Other income		**1,449,957**		1,001,180
	$	**1,629,957**	$	8,863,114

6 Profit before taxation

Profit before taxation is arrived at after charging:

	2006		2005 (restated)	
(a) Finance costs:				
Interest on:				
– bank loans and overdrafts	**$**	**9,311,678**	$	1,152,133
– other accounts payable		**5,805,285**		224,555
– other		**3,213,684**		482,513
	$	**18,330,647**	$	1,859,201
(b) Staff costs:				
Salaries and other allowances	**$**	**82,552,239**	$	76,763,631
Pension costs – defined contribution plan		**1,743,172**		1,166,592
Equity settled share-based payment expenses		**32,807**		32,809
	$	**84,328,218**	$	77,963,032
(c) Other items:				
Amortisation of intangible assets	**$**	**–**	$	383,308
Impairment losses for bad and doubtful debts (net)		**7,106,963**		–
Operating lease charges				
– land and buildings		**1,953,432**		2,269,834
– office equipment		**441,600**		441,600
Share of associates' taxation		**128,519**		617,297
Depreciation		**2,610,552**		3,046,479
Net loss on disposal of equipment		**17,911**		–
Auditors' remuneration		**1,875,600**		1,677,980

For the year ended 30 June 2006 (Expressed in Hong Kong dollars)

7 Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

Hong Kong Profits Tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits for the year.

	2006	2005 (restated)
Current tax – Provision for Hong Kong Profits Tax		
Tax for the year	**$ 2,712,781**	$ 3,423,349
Over-provision in prior years	**(4,705,865)**	(15,832,319)
	$ (1,993,084)	$ (12,408,970)
Deferred tax		
Origination and reversal of temporary differences	**3,981,269**	62,200
	$ 1,988,185	$ (12,346,770)

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

	2006	2005 (restated)
Profit before tax	**$ 34,433,755**	$ 73,693,877
Tax at the domestic income tax rate of 17.5%	**$ 6,025,907**	$ 12,896,428
Effect of different tax rates of subsidiaries operating in other jurisdictions	**11,865,892**	2,687,619
Tax effect of non-deductible expenses	**13,729,853**	1,340,419
Tax effect of non-taxable revenue	**(20,809,391)**	(13,628,362)
Tax effect of utilisation of tax losses not previously recognised	**(6,056,364)**	(2,606,586)
Tax effect of tax losses not recognised	**2,306,306**	3,289,823
Over-provision in prior years	**(4,705,865)**	(15,832,319)
Others	**(368,153)**	(493,792)
Actual tax expense/(credit)	**$ 1,988,185**	$ (12,346,770)

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:

	2006	2005
Fees	$ 720,000	$ 473,333
Salaries, commissions and other allowances	9,037,159	10,183,511
Bonuses	5,933,259	6,552,314
Retirement scheme contributions	264,405	54,700
	$ 15,954,823	$ 17,263,858

Included in the directors' emoluments were fees of $560,000 (2005: $393,333) 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. A director had exercised certain share options in last year.

Details of the emoluments of the directors are as follows:

	2006	2005
Jonathan Koon Shum Choi	$ –	$ –
William Ka Chung Lam	5,310,000	5,830,981
Michael Koon Ming Choi	1,612,000	1,812,000
Mary Yuk Sin Lam	953,905	2,434,344
William Wai Leung Wu	461,107	–
Rebecca Yuk Fung Lau	5,012,000	3,947,200
Patrick Sun	1,885,811	1,760,000
Michael Wai Chung Wu	160,000	1,086,000
Robert Tsai To Sze	200,000	160,000
Raymond Wai Yung Wu	160,000	100,000
Stanley Kam Chuen Ko	200,000	133,333
	$ 15,954,823	$ 17,263,858

There was no arrangement under which a director waived or agreed to waive any remuneration during the current and previous year.

For the year ended 30 June 2006 (Expressed in Hong Kong dollars)

8 Directors' and management's emoluments (Continued)

(b) MANAGEMENT'S EMOLUMENTS (EXCLUDING COMMISSIONS)

The five individuals whose emoluments (excluding commissions) were the highest in the Group for the year include 2 (2005: 2) directors whose emoluments (excluding commissions) received in their capacity as directors of the Company are reflected in the analysis presented above. Part of the emolument (excluding commissions) of a director (2005: nil) whose emolument is fully disclosed below is also reflected in the analysis presented above. The emoluments (excluding commissions) payable to the remaining 3 (2005: 3) individuals during the year are as follows:

	2006	2005
Salaries, other allowances and benefits in kind	$ 5,065,000	$ 4,815,000
Bonuses	10,891,199	11,695,000
Retirement scheme contributions	36,000	36,000
	$ 15,992,199	$ 16,546,000

The emoluments are within the following bands:

	2006 Number of individuals	2005 Number of individuals
$2,500,001 – $3,000,000	1	–
$3,500,001 – $4,000,000	–	1
$5,000,001 – $5,500,000	1	–
$6,000,001 – $6,500,000	–	2
$8,000,001 – $8,500,000	1	–

9 Profit attributable to equity shareholders of the Company

The consolidated profit attributable to equity shareholders includes a profit of $106,466,472 (2005 (restated): $42,511,695) which has been dealt with in the financial statements of the Company.

10 Dividends

(a) DIVIDENDS PAYABLE TO EQUITY SHAREHOLDERS OF THE COMPANY ATTRIBUTABLE TO THE YEAR

	2006	2005
Interim dividend paid of 0.33 cent per share (2005: 0.33 cent per share)	**$ 10,719,139**	$ 10,719,139
Final dividend proposed after the balance sheet date of 0.67 cent per share (2005: 0.67 cent per share)	**21,763,100**	21,763,100
	$ 32,482,239	$ 32,482,239

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

(b) DIVIDENDS PAYABLE TO EQUITY SHAREHOLDERS OF THE COMPANY ATTRIBUTABLE TO THE PREVIOUS FINANCIAL YEAR, APPROVED AND PAID DURING THE YEAR

	2006	2005
Final dividend in respect of the previous financial year, approved and paid during the year, of 0.67 cent per share (2005: 0.67 cent per share)	**$ 21,763,100**	$ 21,757,070

For the year ended 30 June 2006 (Expressed in Hong Kong dollars)

11 Earnings per share

(a) BASIC EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the Group's profit attributable to shareholders of $19,338,078 (2005 (restated): $84,574,045).

The basic earnings per share is calculated based on the weighted average of 3,248,223,906 (2005: 3,245,165,448) ordinary shares in issue during the year.

(i) Weighted average number of ordinary shares

	2006	2005
Issued ordinary shares at 1 July	**3,248,223,906**	3,236,192,906
Effect of share options exercised *(Note 29)*	**–**	8,972,542
Weighted average number of ordinary shares at 30 June	**3,248,223,906**	3,245,165,448

(b) DILUTED EARNINGS PER SHARE

Diluted earnings per share for the current year has not been disclosed as the outstanding share options have no dilutive effects on the basic earnings per share for the year, as their exercise prices were above the average market price of the shares during the year.

The calculation of diluted earnings per share for prior year was based on the weighted average number of ordinary shares of 3,257,410,947 shares, calculated as follows:

(i) Weighted average number of ordinary shares (diluted)

	2006	2005
Weighted average number of ordinary shares at 30 June	**3,248,223,906**	3,245,165,448
Effect of deemed issue of share under the Company's share option scheme for nil consideration	**–**	12,245,499
Weighted average number of ordinary shares at 30 June	**3,248,223,906**	3,257,410,947

12 Segment reporting

(a) BY BUSINESS SEGMENTS

The Group's activities are organised under the following business segments:

Investment in securities	:	Investment in securities for treasury and liquidity management
Merchant banking	:	Investment in structured deals including listed and unlisted equity, debt securities and investment properties
Brokerage	:	Provision of stock and futures brokerage services, margin and other financing, and other related services
Investment banking	:	Provision of financial advisory services to corporate clients in connection with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and acting as underwriting and placing agent in the equity capital market
Private equity	:	Provision of real estate services, asset management and related advisory services to private equity funds and private clients
Wealth management	:	Provision of wealth management services to authorised unit trusts, Mandatory Provident Funds ("MPF") and private clients

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.

Net gains from revaluation of investment properties are included in the segment result for the merchant banking segment.

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12 Segment reporting (Continued)

	2006							
	Investment in securities	Merchant banking	Brokerage	Investment banking	Private equity	Wealth management	Others	Consolidated
Segmental income statement								
Turnover	$ 20,612,549	$ 22,047,936	$ 57,774,468	$ 41,304,433	$ 6,022,454	$ 2,088,814	$ 500,363	$ 150,351,017
Inter-segment revenues	251,450	–	6,400,492	–	8,894,486	16,044,367	26,453,403	58,044,198
Other income	54,929	–	297,542	243,259	200	–	1,034,027	1,629,957
	$ 20,918,928	$ 22,047,936	$ 64,472,502	$ 41,547,692	$ 14,917,140	$ 18,133,181	$ 27,987,793	$ 210,025,172
Eliminations								(58,044,198)
Total revenues								$ 151,980,974
Segment results	$ (4,840,634)	$ 33,589,696	$ (6,177,423)	$ 13,221,559	$ 1,750,048	$ 4,474,841	$ (11,333,137)	$ 30,684,950
Share of profits/(losses) of associates	$ –	$ 3,226,298	$ (78,895)	$ –	$ 601,402	$ –	$ –	3,748,805
Profit before taxation								$ 34,433,755
Income tax								(1,988,185)
Profit after taxation								$ 32,445,570
Segment assets and liabilities								
Segment assets	$ 135,558,562	$ 458,836,110	$ 188,731,641	$ 7,234,911	$ 6,649,709	$ 11,511,039	$ 85,610,376	$ 894,132,348
Interests in associates	–	34,302,683	6,766,728	–	1,791,452	–	–	42,860,863
Unallocated assets								1,744,066
								$ 938,737,277
Eliminations								(5,494,893)
Total assets								$ 933,242,384
Segment liabilities	$ 11,235,105	$ 112,615,119	$ 78,611,033	$ 5,099,332	$ 4,303,377	$ 7,320,316	$ 18,812,509	$ 237,996,791
Unallocated liabilities								14,023,715
								$ 252,020,506
Eliminations								(5,494,893)
Total liabilities								$ 246,525,613
Other segmental information								
Depreciation of tangible assets for the year	$ –	$ –	$ 1,016,738	$ 159,793	$ 15,881	$ 167,460	$ 1,250,680	$ 2,610,552
Revaluation loss recognised in the income statement	$ –	$ –	$ –	$ –	$ –	$ –	$ 548,409	$ 548,409
Capital expenditure incurred during the year	$ –	$ 232,579,068	$ 1,443,644	$ –	$ 43,131	$ –	$ 1,819,769	$ 235,885,612

12 Segment reporting (Continued)

	2005 (restated)							
	Investment in securities	Merchant banking	Brokerage	Investment banking	Private equity	Wealth management	Others	Consolidated
Segmental income statement								
Turnover	$ 48,029,475	$ 41,164,990	$ 48,099,432	$ 46,381,884	$ 1,533,399	$ 1,920,409	$ 2,131,621	$ 189,261,210
Inter-segment revenues	11,716	–	5,878,535	800,000	5,095,290	14,983,456	22,393,898	49,162,895
Other income	893,904	1,036,782	2,427,178	210,000	–	–	4,295,250	8,863,114
	$ 48,935,095	$ 42,201,772	$ 56,405,145	$ 47,391,884	$ 6,628,689	$ 16,903,865	$ 28,820,769	$ 247,287,219
Eliminations								(49,162,895)
Total revenues								$ 198,124,324
Segment results	$ 23,834,415	$ 31,805,126	$ 1,065,859	$ 12,824,553	$ 2,856,004	$ 5,789,624	$ (8,208,611)	$ 69,966,970
Share of profits/(losses) of associates	$ –	$ 3,130,430	$ (10,975)	$ –	$ 679,452	$ –	$ –	3,798,907
Share of losses of a jointly controlled entity	–	–	–	–	–	–	(72,000)	(72,000)
Profit before taxation								$ 73,693,877
Income tax								12,346,770
Profit after taxation								$ 86,040,647
Segment assets and liabilities								
Segment assets	$ 256,579,294	$ 168,862,734	$ 695,454,373	$ 44,867,673	$ 3,612,396	$ 6,170,029	$ 84,193,575	$ 1,259,740,074
Interests in associates	–	32,571,134	6,845,623	–	1,190,050	–	–	40,606,807
								$ 1,300,346,881
Eliminations								(38,682,687)
Total assets								$ 1,261,664,194
Segment liabilities	$ 44,021,777	$ 294,513	$ 507,167,842	$ 33,952,577	$ 930,889	$ 1,212,335	$ 31,288,798	$ 618,868,731
Unallocated liabilities								14,970,418
								$ 633,839,149
Eliminations								(38,682,687)
Total liabilities								$ 595,156,462
Other segmental information								
Depreciation and amortisation of tangible and intangible assets for the year	$ –	$ 57,434	$ 1,701,126	$ 310,058	$ 48,903	$ 218,371	$ 1,093,895	$ 3,429,787
Impairment loss recognised in the income statement	$ –	$ –	$ 35,294	$ –	$ –	$ –	$ 70,000	$ 105,294
Capital expenditure incurred during the year	$ –	$ –	$ 1,524,144	$ –	$ 18,000	$ 58,636	$ 12,760,806	$ 14,361,586

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12 Segment reporting (Continued)

(b) BY GEOGRAPHICAL SEGMENTS

The following table provides an analysis of the Group's turnover, assets and capital expenditure by geographical markets:

	Group					
	Turnover		Assets		Capital expenditure	
	2006	2005	**2006**	2005	**2006**	2005
Hong Kong	**$ 135,173,601**	$ 177,050,117	**$ 497,603,450**	$1,145,790,893	**$ 1,565,704**	$ 2,042,539
The People's Republic of China (the "PRC")	**2,363,286**	2,203,961	**306,891,013**	74,489,725	**234,319,908**	12,319,047
Japan	**13,182,771**	–	**47,967,047**	50,948	**–**	–
Other markets	**(368,641)**	10,007,132	**41,670,838**	39,408,508	**–**	–
	$ 150,351,017	$ 189,261,210	**$ 894,132,348**	$1,259,740,074	**$ 235,885,612**	$ 14,361,586

13 Investment properties

	Group	
	2006	2005
Fair Value		
At 1 July	**$ –**	$ 12,000,000
Addition	**232,579,068**	–
Disposal	**–**	(12,000,000)
Fair value adjustment (Note)	**47,778,422**	–
	$ 280,357,490	$ –

The investment properties held during the year were located in the PRC which are held on a long lease of more than 50 years. The properties were valued on 30 June 2006 by RHL Appraisal Limited, an independent firm of chartered surveyors, who have among their staff Fellows of the Hong Kong Institute of Surveyors ("HKIS") with recent experience in the location and category of property being valued. The valuation, which conforms to HKIS Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

Location	Classification	Term of lease
Level 3 to Level 22 of Block 6, No. 66 Xiaguang Lane, Chaoyang District, Beijing, PRC	Residential	Expires in 2073

Note: The fair value adjustment included an exchange gain of $4,282,120 in respect of the appreciation of the Renminbi during the year.

14 Other properties and equipment

	Group					
	Buildings held for own use	Leasehold improvements	Furniture and fixtures	Office equipment	Motor vehicles	Total
Cost or valuation:						
At 1 July 2004	$ –	$ 5,414,357	$ 1,952,754	$ 9,294,878	$ 2,891,607	$ 19,553,596
Exchange adjustment	–	(5,725)	–	(924)	(2,389)	(9,038)
Additions	12,305,292	18,000	67,892	1,760,408	209,994	14,361,586
Disposals	–	–	–	–	(668,000)	(668,000)
Surplus on revaluation	784,848	–	–	–	–	784,848
At 30 June 2005 and 1 July 2005	$ 13,090,140	$ 5,426,632	$ 2,020,646	$ 11,054,362	$ 2,431,212	$ 34,022,992
Exchange adjustment	–	45,809	–	7,868	19,116	72,793
Additions	–	1,285,645	80,239	1,719,949	220,711	3,306,544
Disposals	–	(251,550)	(121,737)	(567,971)	–	(941,258)
Elimination on revaluation	(243,132)	–	–	–	–	(243,132)
Surplus on revaluation	316,000	–	–	–	–	316,000
At 30 June 2006	$ 13,163,008	$ 6,506,536	$ 1,979,148	$ 12,214,208	$ 2,671,039	$ 36,533,939
Accumulated depreciation and impairment						
At 1 July 2004	$ –	$ 3,925,671	$ 1,508,268	$ 6,857,649	$ 869,683	$ 13,161,271
Exchange adjustment	–	(4,724)	–	(416)	(335)	(5,475)
Charge for the year	–	883,863	250,102	1,459,713	452,801	3,046,479
Disposals	–	–	–	–	(668,000)	(668,000)
At 30 June 2005 and 1 July 2005	$ –	$ 4,804,810	$ 1,758,370	$ 8,316,946	$ 654,149	$ 15,534,275
Exchange adjustment	–	44,433	–	4,372	5,350	54,155
Charge for the year	243,132	528,919	130,647	1,209,310	498,544	2,610,552
Elimination on revaluation	(243,132)	–	–	–	–	(243,132)
Disposals	–	(251,550)	(121,737)	(545,088)	–	(918,375)
At 30 June 2006	$ –	$ 5,126,612	$ 1,767,280	$ 8,985,540	$ 1,158,043	$ 17,037,475
Carrying values:						
At 30 June 2006	$ 13,163,008	$ 1,379,924	$ 211,868	$ 3,228,668	$ 1,512,996	$ 19,496,464
At 30 June 2005	$ 13,090,140	$ 621,822	$ 262,276	$ 2,737,416	$ 1,777,063	$ 18,488,717
Representing:						
Cost	$ –	$ 6,506,536	$ 1,979,148	$ 12,214,208	$ 2,671,039	$ 23,370,931
Valuation	13,163,008	–	–	–	–	13,163,008
At 30 June 2006	$ 13,163,008	$ 6,506,536	$ 1,979,148	$ 12,214,208	$ 2,671,039	$ 36,533,939
Representing:						
Cost	$ –	$ 5,426,632	$ 2,020,646	$ 11,054,362	$ 2,431,212	$ 20,932,852
Valuation	13,090,140	–	–	–	–	13,090,140
At 30 June 2005	$ 13,090,140	$ 5,426,632	$ 2,020,646	$ 11,054,362	$ 2,431,212	$ 34,022,992

For the year ended 30 June 2006 (Expressed in Hong Kong dollars)

14 Other properties and equipment (Continued)

The Group's interest in buildings held for own use represents two buildings located in the PRC which are held on a medium lease of less than 50 years. The buildings were revalued at 30 June 2006 by RHL Appraisal Limited, an independent firm of chartered surveyors employed by the Group, on the basis of open market value. The revaluation surplus of $1,649,257 (2005: $784,848) was credited to the revaluation reserve (note 31).

15 Intangible assets

	Membership of Chinese Gold & Silver Exchange Society	Club memberships	Exchange trading rights	Total
Cost				
At 1 July 2004 (as restated)	$ 280,000	$ 590,000	$ 9,897,318	$10,767,318
At 30 June 2005 and 1 July 2005 (as restated)	$ 280,000	$ 590,000	$ 9,897,318	$10,767,318
Elimination of accumulated amortisation	–	–	$ (7,930,883)	$ (7,930,883)
At 30 June 2006	$ 280,000	$ 590,000	$ 1,966,435	$ 2,836,435
Accumulated amortisation and impairment				
At 1 July 2004 (as restated)	$ –	$ 180,000	$ 7,547,575	$ 7,727,575
Amortisation for the year	–	–	383,308	383,308
Impairment loss	–	70,000	35,294	105,294
At 30 June 2005 and 1 July 2005 (as restated)	$ –	$ 250,000	$ 7,966,177	$ 8,216,177
Elimination against cost at 1 July 2005	$ –	$ –	$ (7,930,883)	$ (7,930,883)
Reversal of impairment loss	–	(180,000)	–	(180,000)
At 30 June 2006	$ –	$ 70,000	$ 35,294	$ 105,294
Carrying amount				
At 30 June 2006	$ 280,000	$ 520,000	$ 1,931,141	$ 2,731,141
At 30 June 2005 (as restated)	$ 280,000	$ 340,000	$ 1,931,141	$ 2,551,141

16 Investment in subsidiaries

	Company 2006	2005
Unlisted shares, at cost	**$ 271,222,358**	$ 271,222,358
Amounts due from subsidiaries	**$ 334,436,070**	$ 405,506,222
Less: impairment loss	**–**	(75,000,000)
	$ 334,436,070	$ 330,506,222
	$ 605,658,428	$ 601,728,580

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

Particulars of the significant subsidiaries of the Group are set out in note 35.

17 Interests in associates

	Group 2006	2005
Unlisted shares, at cost	**$ 36,498,863**	$ 36,498,863
Share of net assets	**6,362,000**	6,871,009
	$ 42,860,863	$ 43,369,872
Less: impairment loss	**–**	(2,763,065)
	$ 42,860,863	$ 40,606,807

Notes: During the year, Modern Harvest Limited, an associate of the Company, entered into an agreement with two third parties to set up a consultancy company in the PRC. Under the agreement, Modern Harvest Limited is committed to inject RMB8 million for a 40% equity interest in the consultancy company. RMB4 million has been injected by Modern Harvest Limited before 30 June 2006.

For the year ended 30 June 2006 (Expressed in Hong Kong dollars)

17 Interests in associates (Continued)

The following list contains only the particulars of associates, all of which are unlisted corporate entities, which principally affected the results or assets of the Group:

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

Summary financial information on associates:

	Assets	Liabilities	Equity	Revenues	Profit
2006					
100 per cent	**$ 189,345,373**	**$ 48,864,430**	**$ 140,480,943**	**$ 35,435,691**	**$ 11,694,146**
Group's effective interest	**$ 57,655,279**	**$ 14,794,416**	**$ 42,860,863**	**$ 11,724,342**	**$ 3,748,805**
2005					
100 per cent	$ 267,176,976	$ 133,407,685	$ 133,769,291	$ 25,482,517	$ 11,757,087
Group's effective interest	$ 80,910,737	$ 40,303,930	$ 40,606,807	$ 8,749,761	$ 3,798,907

18 Interest in a jointly controlled entity

	Group 2006	2005
Unlisted shares, at cost	**$ 300,000**	$ 300,000
Share of net assets	**(300,000)**	(300,000)
	$ –	$ –

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

Name	Form of business structure	Place of incorporation/ operation	Principal activity	Particulars of issued shares	Interest indirectly held
ZJ Kingsway Finance Holdings Company Limited	Incorporated	Hong Kong	Provision of corporate consultancy services	1,000,000 ordinary shares of $1 each	30%

19 Other financial assets

	Group 2006	2005 (restated)
Unlisted held-to-maturity convertible bonds	**$ 40,070,000**	$ 40,070,000
Statutory deposits	**6,805,960**	5,964,767
Others	**3,565,330**	2,182,225
	$ 50,441,290	$ 48,216,992
Less: Impairment loss	**(40,070,000)**	(40,070,000)
	$ 10,371,290	$ 8,146,992

For the year ended 30 June 2006 (Expressed in Hong Kong dollars)

20 Financial assets at fair value through profit or loss

	Group 2006	Group 2005 (restated)
Listed equity securities, at fair value		
– in Hong Kong	**$ 200,557,434**	$ 314,925,656
– outside Hong Kong	**39,647,866**	34,379,665
	$ 240,205,300	$ 349,305,321
Unlisted investments, at fair value		
– equity securities	**$ 1,170,300**	$ 31,825,700
– unit trust fund (Note (a))	**1,520,910**	1,009,454
– debt securities (Note (b))	**47,917,771**	1,280,000
	$ 50,608,981	$ 34,115,154
	$ 290,814,281	$ 383,420,475
The carrying amounts of the above financial assets are classified as follows:		
Held for trading	**$ 241,726,210**	$ 350,314,775
Designated as fair value through profit or loss on initial recognition	**49,088,071**	33,105,700
	$ 290,814,281	$ 383,420,475
Market value of listed equity securities	**$ 282,253,558**	$ 373,402,154

Notes: (a) The unit trust fund is authorised by the Securities and Futures Commission of Hong Kong and is launched and managed by a subsidiary of the Group.

(b) The debt securities represent the convertible bonds with maturity period over 1 year but less than 5 years (2005: within 1 year).

21 Accounts, loans and other receivables

	Note	Group 2006	Group 2005 (restated)	Company 2006	Company 2005
Accounts and loans receivable, net of provisions					
Amounts due from brokers and clearing houses	(a)	**$ 13,283,084**	$ 304,479,050	**$ –**	$ –
Amounts due from margin clients	(b)	**60,922,303**	80,166,275	**–**	–
Amounts due from cash clients	(c)	**50,646,561**	24,491,360	**–**	–
Loans receivable	(d)	**6,680,940**	27,892,739	**–**	–
Others		**2,856,790**	9,806,682	**–**	–
		$ 134,389,678	$ 446,836,106	**$ –**	$ –
Prepayments, deposits and other receivables	(e)	**8,854,590**	77,652,296	**183,006**	188,000
		$ 143,244,268	$ 524,488,402	**$ 183,006**	$ 188,000

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

	Group 2006	Group 2005 (restated)	Company 2006	Company 2005
Current and within one month	**$ 132,713,094**	$ 444,001,041	**$ –**	$ –
More than one month and within three months	**592,683**	1,174,317	**–**	–
More than three months	**1,083,901**	1,660,748	**–**	–
	$ 134,389,678	$ 446,836,106	**$ –**	$ –

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 2006, the Group held $8,329,827 (2005: $5,667,809) with HKFECC in trust for clients which was not dealt with in these financial statements.

(b) Margin clients of the brokerage division are required to pledge securities collateral to the Group in order to obtain the credit facilities for securities trading. The amount of credit facilities granted to them is determined by the discounted value of securities accepted by the Group. The amounts due from margin clients are repayable on demand and bear interest at commercial rates.

(c) There are no credit facilities granted to cash clients of the 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 brokerage division are set by management with reference to the financial background and the value and nature of collaterals pledged by the borrower.

(e) As at 30 June 2005, the balance included an amount of $55,716,157 placed with a property developer in the PRC as a deposit for the purchase of a property in Beijing, the PRC, details of which are disclosed in note 33(c)(i) on the financial statements.

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22 Amounts due from/(to) related companies and ultimate holding company

The amounts due from/(to) related companies and ultimate holding company are unsecured, interest-free and repayable on demand.

23 Cash and cash equivalents

The Group maintains segregated clients' accounts with licensed banks to hold clients' monies arising from normal business transactions in connection with the Group's brokerage and asset management activities. As at 30 June 2006, segregated clients' accounts not otherwise dealt with in these financial statements amounted to $178,346,909 (2005: $278,411,334).

24 Financial liabilities at fair value through profit or loss

	Group	
	2006	2005
Short positions in equity securities listed in Hong Kong	**$ –**	$ 21,187,500

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. During the current year, such short positions were settled.

25 Accruals, accounts and other payables

	Group		Company	
	2006	2005 (restated)	**2006**	2005
Accounts payable (current and within one month)				
Amounts due to brokers and clearing houses	**$ 10,174,707**	$ 26,016,370	**$ –**	$ –
Clients' accounts payable (net of bank and clearing house balances in segregated clients' accounts)	**56,282,458**	344,519,438	**–**	–
Others	**8,024,503**	7,973,077	**–**	14,850
	$ 74,481,668	$ 378,508,885	**$ –**	$ 14,850
Other creditors and accruals	**40,317,188**	33,727,092	**959,308**	652,746
	$ 114,798,856	$ 412,235,977	**$ 959,308**	$ 667,596

26 Bank loans and overdrafts

	Group		Company	
	2006	2005 (restated)	**2006**	2005
Secured bank overdrafts	**$ –**	$ 877,392	**$ –**	$ –
Unsecured bank overdrafts	**–**	4,989,999	**–**	–
Unsecured bank loans	**–**	15,000,000	**–**	15,000,000
Secured bank loans (Note (a))	**117,703,042**	45,075,176	**–**	–
	$ 117,703,042	$ 65,942,567	**$ –**	$ 15,000,000

The bank loans and overdrafts are repayable as follows:

	Group		Company	
	2006	2005 (restated)	**2006**	2005
Within one year or on demand	**$ 5,142,752**	$ 59,423,422	**$ –**	$ 15,000,000
More than one year, but not exceeding two years	**5,505,947**	586,121	**–**	–
More than two years, but not exceeding five years	**18,961,718**	1,955,736	**–**	–
After 5 years	**88,092,625**	3,977,288	**–**	–
	$ 117,703,042	$ 65,942,567	**$ –**	$ 15,000,000
Less: amount due after one year shown under non-current liabilities	**(112,560,290)**	(6,519,145)	**–**	–
	$ 5,142,752	$ 59,423,422	**$ –**	$ 15,000,000

Note:

(a) Certain banking facilities of the Group were secured by securities collateral from the Group's margin clients, the Group's securities held for trading and the Group's bank deposits with market value of $Nil (2005: $285,171,767), $44,596,691 (2005: $16,361,827) and $4,225,273 (2005: $214,151) respectively. The banking facilities had not been utilised as at 30 June 2006 (2005: utilised by $38,877,392).

As at 30 June 2006, the Group's buildings held for own use and investment properties with carrying values of $13,163,008 (2005: $13,090,140) and $280,357,490 (2005: $Nil) respectively have been pledged as security for the Group's bank loans. The banking facilities had been utilised by $117,703,042 as at 30 June 2006 (2005: $7,075,176).

27 Other loans

The balances were unsecured, bearing interest at market rates and repayable within one year.

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28 Deferred taxation

(a) **DEFERRED TAX (ASSETS)/LIABILITIES RECOGNISED:**

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

	Group Accelerated depreciation	Group Revaluation of investment properties	Total
At 1 July 2004	$ 391,130	$ –	$ 391,130
Charged to income statement	62,200	–	62,200
At 30 June 2005 and 1 July 2005	$ 453,330	$ –	$ 453,330
(Credited)/charged to income statement	(19,588)	4,000,857	3,981,269
At 30 June 2006	$ 433,742	$ 4,000,857	$ 4,434,599

	2006	2005
Deferred tax liabilities		
– Accelerated depreciation	**$ 433,742**	$ 453,330
– Revaluation of investment properties	**4,000,857**	–
	$ 4,434,599	$ 453,330

(b) **DEFERRED TAX ASSETS NOT RECOGNISED:**

In accordance with the accounting policy set out in note 2(p), the Group has not recognised deferred tax assets in respect of cumulative tax losses of $194 million (2005: $213 million) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax regulation.

29 Share capital

	No. of shares	Amount
Authorised:		
Ordinary shares of $0.1 each	4,000,000,000	$ 400,000,000
Issued and fully paid:		
At 1 July 2004	3,236,192,906	$ 323,619,291
Exercise of share options *(Note)*	12,031,000	1,203,100
At 30 June 2005 and 2006	3,248,223,906	$ 324,822,391

Note: In the prior year, an aggregate of 12,031,000 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 $2,828,432. These shares rank pari passu with the existing shares.

30 Equity settled share-based transactions

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.

(i) MOVEMENTS IN SHARE OPTIONS

	2006 Number	**2006 Weighted average exercise price $**	2005 Number	2005 Weighted average exercise price $
At 1 July of previous year	**75,950,000**	**0.37**	249,235,000	0.3
Exercised	**–**	**–**	(12,031,000)	0.24
Lapsed	**(37,950,000)**	**0.36**	(161,254,000)	0.27
At 30 June	**38,000,000**	**0.38**	75,950,000	0.37
Exercisable at the end of the year	**34,333,331**	**0.38**	50,456,664	0.36

For the year ended 30 June 2006 (Expressed in Hong Kong dollars)

30 Equity settled share-based transactions (Continued)

(ii) TERMS OF UNEXPIRED AND UNEXERCISED SHARE OPTIONS AT BALANCE SHEET DATE

Date of share options granted	Range of exercise periods	Exercise price per share $	At 1 July 2004	Transfer (note)	Exercised during the year	Lapsed during the year	At 30 June 2005 and 1 July 2005	Transfer (note)	Lapsed during the year	At 30 June 2006
Directors:										
28 September 2000	29 March 2001 to 28 February 2005	0.2333	121,500,000	2,400,000	(2,400,000)	(121,500,000)	-	-	-	-
22 June 2001	22 December 2001 to 21 June 2005	0.3433	-	1,500,000	-	(1,500,000)	-	-	-	-
31 August 2001	1 March 2002 to 31 August 2005	0.3233	19,500,000	(17,100,000)	-	-	2,400,000	-	(2,400,000)	-
20 December 2002	2 October 2003 to 1 June 2007	0.3833	30,000,000	-	-	(30,000,000)	-	3,000,000	-	3,000,000
4 April 2003	5 October 2003 to 4 April 2007	0.363	-	24,000,000	-	-	24,000,000	-	-	24,000,000
11 March 2004	24 September 2004 to 23 March 2008	0.43	-	-	-	-	-	7,000,000	-	7,000,000
Employees:										
28 September 2000	28 March 2001 to 27 March 2005	0.2333	14,135,000	(2,400,000)	(9,391,000)	(2,344,000)	-	-	-	-
22 June 2001	22 December 2001 to 21 December 2005	0.3433	1,500,000	(1,500,000)	-	-	-	-	-	-
31 August 2001	1 March 2002 to 28 February 2006	0.3233	5,400,000	17,100,000	(240,000)	(450,000)	21,810,000	-	(21,810,000)	-
20 December 2002	2 October 2003 to 1 April 2007	0.3833	3,000,000	-	-	-	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	-	-	(5,460,000)	24,740,000	(7,000,000)	(13,740,000)	4,000,000
Total			249,235,000	-	(12,031,000)	(161,254,000)	75,950,000	-	(37,950,000)	38,000,000

Note: During the year ended 30 June 2006 and 30 June 2005, certain employees of the Group were appointed as directors of the Company. Consequently, those options held by these employees were transferred to options held by directors upon their appointments.

During the year ended 30 June 2005, a director of the Company resigned as director of the Company and became an employee of the Group. Consequently, those options held by the director were transferred to options held by employees upon the change.

30 Equity settled share-based transactions (Continued)

(ii) TERMS OF UNEXPIRED AND UNEXERCISED SHARE OPTIONS AT BALANCE SHEET DATE (Continued)

There were no options granted, exercised or cancelled in accordance with the terms of the Scheme during the year. The exercise period for share options granted on a particular date varies for each individual. The range of exercise periods disclosed above indicates the timeframe during which the exercise periods for share options granted on a particular date can fall.

(iii) FAIR VALUE OF SHARE OPTIONS AND ASSUMPTIONS

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a Black-Scholes model. The contractual life of the option is used as an input into this model. The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

Fair value of share options and assumptions

		2006 and 2005
Fair value at measurement date	$	0.02
Share price	$	0.36
Exercise price	$	0.39
Expected volatility		13.58%
Option life		3.5 years
Expected dividends		2.26%
Risk-free interest rate		2.35%

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31 Reserves

THE GROUP

	Note	Share premium (Note (a))	Special reserve (Note (b))	Capital reserve on consolidation (Note (c))	Equity compensation reserve (Note (e))	Exchange reserve (Note (f))	Revaluation reserve (Note (g))	Retained profits (Note (h))	Total	Minority interests	Total
		Attributable to equity shareholders of the Company									
At 30 June 2005 (restated)		$ 31,811,160	$ 39,800,000	$ 63,391,540	$ 54,676	$ 1,253	$ 784,848	$169,813,214	$305,656,691	$ 36,028,650	$341,685,341
– Opening balance adjustments arising from change in accounting policies	3(a)	–	–	–	–	–	–	13,626,882	13,626,882	5,994,843	19,621,725
At 1 July 2005 (as restated)		$ 31,811,160	$ 39,800,000	$ 63,391,540	$ 54,676	$ 1,253	$ 784,848	$183,440,096	$319,283,573	$ 42,023,493	$361,307,066
Exchange differences on translation of financial statements of overseas subsidiaries		–	–	–	–	(278,484)	–	–	(278,484)	–	(278,484)
Share of reserve of associates		–	–	–	–	5,251	–	–	5,251	–	5,251
Equity settled share-based transactions		–	–	–	32,807	–	–	–	32,807	–	32,807
Surplus on revaluation		–	–	–	–	–	864,409	–	864,409	–	864,409
Profit attributable to equity shareholders		–	–	–	–	–	–	19,338,078	19,338,078	13,107,492	32,445,570
Dividends paid											
– 2005, final *(Note (d))*		–	–	–	–	–	–	(21,763,100)	(21,763,100)	–	(21,763,100)
– 2006, interim		–	–	–	–	–	–	(10,719,139)	(10,719,139)	–	(10,719,139)
At 30 June 2006		$ 31,811,160	$ 39,800,000	$ 63,391,540	$ 87,483	$ (271,980)	$ 1,649,257	$170,295,935	$306,763,395	$ 55,130,985	$361,894,380
Attributable to:											
– the Company and its subsidiaries		$ 31,811,160	$ 39,800,000	$ 63,391,540	$ 87,483	$ (277,232)	$ 1,649,257	$164,239,187	$300,701,395	$ –	$300,701,395
– associates		–	–	–	–	5,252	–	6,356,748	6,362,000	–	6,362,000
– a jointly controlled entity		–	–	–	–	–	–	(300,000)	(300,000)	–	(300,000)
At 30 June 2006		$ 31,811,160	$ 39,800,000	$ 63,391,540	$ 87,483	$ (271,980)	$ 1,649,257	$170,295,935	$306,763,395	$ –	$306,763,395

31 Reserves (Continued)

THE GROUP

	Note	Attributable to equity shareholders of the Company								Minority interests	Total
		Share premium (Note (a))	Special reserve (Note (b))	Capital reserve on consolidation (Note (c))	Equity compensation reserve (Note (e))	Exchange reserve (Note (f))	Revaluation reserve (Note (g))	Retained profits (Note (h))	Total		
At 1 July 2004											
– As previously reported		$ 30,185,828	$ 39,800,000	$ 63,391,540	$ –	$ (17,116)	$ –	$117,737,245	$251,097,497	$ –	$251,097,497
– Minority interests (as previously presented separately from liabilities and equity	3(f)	–	–	–	–	–	–	–	–	34,415,048	34,415,048
– Prior period adjustments arising from change in accounting policies	3(h)	–	–	–	21,867	–	–	(21,867)	–	–	–
– As restated		$ 30,185,828	$ 39,800,000	$ 63,391,540	$ 21,867	$ (17,116)	$ –	$117,715,378	$251,097,497	$ 34,415,048	$285,512,545
Share premium arising on exercise of share options		1,625,332	–	–	–	–	–	–	1,625,332	–	1,625,332
Exchange differences on translation of financial statements of overseas subsidiaries		–	–	–	–	18,369	–	–	18,369	–	18,369
Equity settled share-based transactions	3(h)	–	–	–	32,809	–	–	–	32,809	–	32,809
Capital contribution from minority interests		–	–	–	–	–	–	–	–	147,000	147,000
Surplus on revaluation		–	–	–	–	–	784,848	–	784,848	–	784,848
Profit attributable to equity shareholders (restated)		–	–	–	–	–		84,574,045	84,574,045	1,466,602	86,040,647
Dividends paid											
– 2004, final (Note (d))		–	–	–	–	–	–	(21,757,070)	(21,757,070)	–	(21,757,070)
– 2005, interim		–	–	–	–	–	–	(10,719,139)	(10,719,139)	–	(10,719,139)
At 30 June 2005 (restated)		$ 31,811,160	$ 39,800,000	$ 63,391,540	$ 54,676	$ 1,253	$ 784,848	$169,813,214	$305,656,691	$ 36,028,650	$341,685,341
Attributable to:											
– the Company and its subsidiaries		$ 31,811,160	$ 39,800,000	$ 63,391,540	$ 54,676	$ 1,253	$ 784,848	$166,005,270	$301,848,747	$ –	$301,848,747
– associates		–	–	–	–	–	–	4,107,944	4,107,944	–	4,107,944
– a jointly controlled entity		–	–	–	–	–	–	(300,000)	(300,000)	–	(300,000)
At 30 June 2005 (restated)		$ 31,811,160	$ 39,800,000	$ 63,391,540	$ 54,676	$ 1,253	$ 784,848	$169,813,214	$305,656,691	$ –	$305,656,691

For the year ended 30 June 2006 (Expressed in Hong Kong dollars)

31 Reserves (Continued)

THE COMPANY

	Contributed surplus (Note (i))	Share premium (Note (a))	Equity compensation reserve (Note (e))	Retained profits (Note (h))	Total
At 1 July 2004					
– As previously reported	$ 220,986,766	$ 30,185,828	$ –	$ 441,518	$ 251,614,112
– Prior period adjustments arising from change in accounting policies	–	–	21,867	(21,867)	–
– As restated	$ 220,986,766	$ 30,185,828	$ 21,867	$ 419,651	$ 251,614,112
Share premium arising on options	–	1,625,332	–	–	1,625,332
Equity settled share-based transactions	–	–	32,809	–	32,809
Profit for the year (restated)	–	–	–	42,511,695	42,511,695
Dividends paid					
– 2004, final (Note (d))	(21,757,070)	–	–	–	(21,757,070)
– 2005, interim	–	–	–	(10,719,139)	(10,719,139)
At 30 June 2005 (restated)	$ 199,229,696	$ 31,811,160	$ 54,676	$ 32,212,207	$ 263,307,739
At 1 July 2005 (restated)	$ 199,229,696	$ 31,811,160	$ 54,676	$ 32,212,207	$ 263,307,739
Equity settled share-based transactions	–	–	32,807	–	32,807
Profit for the year	–	–	–	106,466,472	106,466,472
Dividends paid					
– 2005, final	–	–	–	(21,763,100)	(21,763,100)
– 2006, interim	–	–	–	(10,719,139)	(10,719,139)
At 30 June 2006	$ 199,229,696	$ 31,811,160	$ 87,483	$ 106,196,440	$ 337,324,779

31 Reserves (Continued)

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 negative goodwill arising from acquisitions prior to 1 July 2001.

(d) On 10 December 2004, final dividend for the year ended 30 June 2004 of $0.67 cent per ordinary share totalling $21,757,070 was paid to shareholders. The amount comprised prior year's proposed final dividend of $21,694,894 plus an additional final dividend of $62,176 paid for those shares issued on the exercise of share options during the period from 21 September 2004 to 30 November 2004.

(e) The equity compensation reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Company recognised in accordance with the accounting policy adopted for share based payments.

(f) The exchange reserve has been set up and will be dealt with in accordance with the accounting policies adopted for foreign currency translation.

(g) The revaluation reserve was set up to deal with the surplus or deficit arising from the revaluation of buildings held for own use.

(h) Retained profits represent:

	Group		Company	
	2006	2005 (restated)	**2006**	2005 (restated)
2006 proposed final dividend	**$ 21,763,100**	$ –	**$ 21,763,100**	$ –
2005 proposed final dividend	–	21,763,100	**–**	21,763,100
Others	**148,532,835**	148,050,114	**84,433,340**	10,449,107
	$ 170,295,935	$ 169,813,214	**$ 106,196,440**	$ 32,212,207

(i) 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, net of $39,712,470 which was capitalised as a result of the bonus issue and dividend paid amounting to $10,323,114 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.

For the year ended 30 June 2006 (Expressed in Hong Kong dollars)

32 Contingent liabilities

	Company	
	2006	2005
Guarantees for banking facilities to subsidiaries	**$ 881,536,503**	$ 283,877,000

33 Commitments

(a) CAPITAL COMMITMENTS

	Group	
	2006	2005
Contracted but not provided for	**$ 1,260,131**	$ 2,183,460

(b) COMMITMENTS UNDER OPERATING LEASES

(i) As lessee

As at 30 June 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings		Office equipment	
	2006	2005	**2006**	2005
Not later than 1 year	**$ 6,366,791**	$ 3,406,963	**$ 441,600**	$ 441,600
Later than 1 year and not later than 5 years	**32,250,000**	67,577	**736,000**	1,177,600
Over 5 years	**8,062,500**	–	**–**	–
	$ 46,679,291	$ 3,474,540	**$ 1,177,600**	$ 1,619,200

(ii) As lessor

As at 30 June 2006, the Group had future minimum lease payments receivable under non-cancellable operating lease as follows:

	2006	2005
Not later than 1 year	**$ 11,700**	$ 10,400

33 Commitments (Continued)

(c) OTHER COMMITMENTS

(i) During the year ended 30 June 2005, the Group entered into an agreement with a PRC property developer for the purchase of the investment properties located in Beijing, the PRC. A deposit of approximately RMB59 million was placed with the property developer. The Group had committed to pay the remaining balance of approximately RMB177 million (approximately $166 million equivalent) representing 75% of the total purchase consideration. The transaction was completed in December 2005.

(ii) During the year ended 30 June 2005, the Group entered into an underwriting agreement with Sino Gas Group Limited ("Sino Gas") in relation to an open offer of certain new shares in Sino Gas. As at 30 June 2005, the Group had a net commitment to undertake approximately 1.7 billion shares in Sino Gas with an amount of approximately $34 million. The transaction was completed in August 2005.

(iii) During the year ended 30 June 2004, the Group entered into an agreement with Shanxi Securities Company Limited and China Gaoxin Investment Group Corporation to establish a fund management business in the PRC. Pursuant to the agreement, an application was submitted to China Securities Regulatory Commission to set up a joint venture fund management company ("JV Company") based in Shanghai. The Group committed to inject an equivalent of RMB33 million for a 33% equity interest in the JV Company. The agreement was terminated in November 2005.

34 Related party and connected party transactions

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party and connected party transactions.

(a) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 8(a) and certain of the highest paid employees as disclosed in note 8(b), is as follows:

	2006	2005
Fees	**$ 720,000**	$ 473,333
Salaries, commissions and other allowance	**19,363,417**	18,491,345
Bonuses	**12,267,534**	13,018,981
Retirement scheme contributions	**438,000**	94,000
	$ 32,788,951	$ 32,077,659

Total remuneration is included in "staff costs" (see note 6(b)).

For the year ended 30 June 2006 (Expressed in Hong Kong dollars)

34 Related party and connected party transactions (Continued)

(b) Others

The following is a summary of significant related party and connected party (as defined in the Listing Rules) transactions which were carried out in the normal course of the Group's business:

	Note	2006	2005 (restated)
Brokerage commission earned on securities and futures dealing	(a)	**$ 4,412,219**	$ 2,247,780
Common office expenses recharged	(b)	**180,208**	251,400
Consultancy and management fees received	(c)	**1,747,091**	1,590,000
Secretarial fee earned	(d)	**136,623**	139,630
Margin loan interest earned	(e)	**26,039**	7,269
Management fee paid	(f)	**(30,000)**	(330,000)
Consultancy fee paid	(g)	**–**	(51,636)
Purchase of equipment	(h)	**–**	(15,000)

Notes:

(a) Brokerage commission was received from fellow subsidiaries, minority shareholders of non-wholly owned subsidiary, the Group's directors and their associates in the ordinary course of the Group's business of dealing in securities and futures. Commission rates are set at the same level as those normally offered to third party clients or the applicable staff rate if the clients are directors or employees of the Group.

(b) Amounts represent office overheads and rental expenses recharged 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) 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.

(d) Secretarial fee was received from associated companies, fellow subsidiaries and associated companies of two of the Group's directors for corporate secretarial services provided. The fee was charged at rates similar to those normally charged to third party clients.

(e) Margin loan interest was received from fellow subsidiaries, the Group's directors and their associates in the ordinary course of the Group's margin financing business. Interest rates are set at the same level as those normally offered to third party clients or the applicable staff rate if the clients are directors or employees of the Group.

(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 equipment from fellow subsidiaries at considerations which were either based on the net book value of the equipment at the date of acquisition or at rates similar to those normally charged to third party clients.

35 Particulars of significant subsidiaries

The following is a list of the significant subsidiaries as at 30 June 2006:

Name	Place of incorporation/ operations	Issued and fully paid share capital	Principal activities	% of ordinary shares held by the company Directly	Indirectly
Ambient Developments Limited	British Virgin Islands	Ordinary shares US$1	Securities investments	–	100%
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%
Carville Resources Limited	British Virgin Islands	Ordinary share US$1	Securities investment	–	100%
Festival Developments Limited	British Virgin Islands	Ordinary share US$1	Investment holding	100%	–
Goalfirst Investments Limited	British Virgin Islands	Ordinary share US$1	Securities investment	–	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 Investments Limited *	Hong Kong/ People's Republic of China	Ordinary shares $2	Investment holding	–	100%

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35 Particulars of significant 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 Financial Services Group Limited	Hong Kong	Ordinary shares $300,000,000	Securities and futures brokerage	–	100%
Kingsway Fund Management Limited	Hong Kong	Ordinary shares $47,000,000	Fund management	–	100%
Kingsway Gold Bullion Limited *	Hong Kong	Ordinary share $6,000,000	Gold Bullion brokerage	–	100%
Kingsway Group Services Limited	Hong Kong	Ordinary share $100,000	Provision of management services	–	100%
Kingsway Insurance Services Limited	Hong Kong	Ordinary share $1	Provision of insurance services	–	100%
Kingsway Lion Spur Technology Limited	British Virgin Islands/ Hong Kong	Ordinary share US$1	Securities investment	–	100%
Kingsway Real Estate Services Limited	Hong Kong	Ordinary share $1	Provision of real estate services	–	100%
Kingsway SBF Investment Company Limited	British Virgin Islands	Ordinary shares US$10,000	Securities investment	–	51%

35 Particulars of significant 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 Management Company Limited	British Virgin Islands/ Hong Kong	Ordinary share US$3,100	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 investment	–	100%
Luxury Developments Limited	Hong Kong	Ordinary shares $100,000	Investment holding	–	100%
Overseas Billion Limited	Hong Kong	Ordinary shares $100,000	Investment holding	–	100%
SW Kingsway Capital Group Limited	British Virgin Islands	Ordinary shares US$38,750,000	Investment holding	100%	–
Well Talent Limited	Hong Kong	Ordinary shares $100,000	Investment holding	–	100%

* Companies not audited by KPMG. The aggregate total assets of these subsidiaries contributed to approximately 4% of the Group's total assets.

36 Non-adjusting post balance sheet date events

On 6 September 2006, Festival Developments Limited ("Festival"), a wholly-owned subsidiary of the Company, entered into a sale & purchase agreement with Marubeni Corporation to which Festival agreed to sell a 50% shareholding interest in Total Express Investment Limited ("Total Express") for a cash consideration of $86,922,453, including, payment of $17,651,642 in consideration of the transfer of shares and payment of $69,270,811 for the assumption of 50% of the shareholder's loan. Total Express is the intermediate holding company of Overseas Billion Limited, Well Talent Limited and Luxury Development Limited, which jointly hold the entire interest in the investment properties in the PRC.

37 Financial instruments

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk, market risk and interest rate risk. These risks are limited by the Group's financial management policies and practices described below.

(a) CREDIT RISK

Credit risk arises from a number of areas. These include the possibility that a counter-party in a transaction may default during the settlement process. It also arises from lending, settlement, treasury, market making, proprietary trading, and other activities undertaken by the Group.

The Group's Finance and Credit Committees are responsible for establishing the credit approval and monitoring procedures, which are in accordance with sound business practices, the requirements and provisions of the relevant ordinances, and where applicable, the codes or guidelines issued by the Securities and Futures Commission.

Day-to-day credit management is performed by the Operations department with reference to the aforementioned criteria including creditworthiness, collateral pledged, and risk concentration of the counter-parties. The Finance Committee and Credit Committee are responsible for review of guidelines on credit limits on a regular basis and approval of specific loans or advances if the amount exceeds our pre-set guideline.

(b) LIQUIDITY RISK

The Group manages its liquidity position to ensure the Group maintains a prudent and adequate liquidity ratio, in strict accordance with statutory requirements. This is achieved by the management, comprising the Chief Financial Officer and relevant senior managers monitoring the liquidity position of the Group on a daily basis to ensure the availability of sufficient liquid funds to meet all obligations and compliance with the statutory requirements such as the Hong Kong Securities and Futures (Financial Resources) Rules applying to various licensed subsidiaries.

37 Financial instruments (Continued)

(c) MARKET RISK

Proprietary trading activities across the Group are subject to limits approved by management. The Board sets up the Investment Monitoring Committee ("IMC") for the purposes of independently monitoring the positions of its proprietary trading activities involving equities and derivatives. In addition to the IMC, the Group's exposures are closely monitored by the Finance department and senior management on a daily basis and are measured on a "mark-to-market" basis. The Group's various proprietary trading activities are reported monthly to senior management for review.

(d) FOREIGN EXCHANGE RISK

Foreign exchange risk is the risk to earnings or capital arising from movements of foreign exchange rates. The Group's foreign exchange risk primarily arises from currency exposures originating from its proprietary investments. Foreign exchange risk is monitored by the Finance department and senior management on a daily basis. Monetary assets are measured daily on a "mark-to-market" basis. Non-current assets are revalued regularly using the market exchange rates. Overall positions are reported monthly to senior management for review. Our principal brokerage and lending operations are carried out in local currency to obviate foreign exchange risk. Accordingly, the Group has no significant exposure to foreign exchange fluctuations on accounts and loan receivables.

(e) INTEREST RATE RISK

Interest rate risk primarily results from timing differences in the re-pricing of interest bearing assets, liabilities and commitments. The Group's interest rate risk exposure arises mainly from margin financing and other lending activities undertaken. The Group has the legal capacity to quickly recall such loans or re-price its loans to an appropriate level. Interest rates paid by the Group are managed by the Finance department with the aim of maximising the spread of interest consistent with liquidity and funding obligations.

38 Critical accounting judgements

In preparing these financial statements, management is required to exercise significant judgements in the selection and application of accounting principles, including making estimates and assumptions. The following is a review of the more significant accounting policies that are impacted by judgments and for which different amounts may be reported under a different set of conditions or using different assumptions.

(a) FAIR VALUE ON FINANCIAL ASSETS

For financial assets held at fair value through profit or loss, the fair value is principally based on their quoted market prices at the balance sheet date. Judgment is required when determining whether the quoted market price can reflect the fair value of the financial assets. The Group has adjusted the bid price of a financial asset after noting that the investee company has financial problems and accounting irregularities.

(b) IMPAIRMENT ALLOWANCES ON LOANS AND RECEIVABLES

The Group periodically reviews its loan portfolios to assess whether impairment allowances exist. In determining whether impairment allowances should be recorded in the income statement, the Group has individually evaluated each loan account for impairment after taking into account the value of each client account's underlying collateral and the latest financial position of those borrowers in default of settlement.

For the year ended 30 June 2006 (Expressed in Hong Kong dollars)

39 Comparative figures

Certain comparative figures have been adjusted or re-classified as a result of the changes in accounting policies. Further details are disclosed in note 3.

40 Parent and ultimate holding company

At 30 June 2006, the directors consider the parent of the Group to be World Developments Limited, which is incorporated in British Virgin Islands. This entity does not produce financial statements available for public use. The directors consider the ultimate holding company of the Group to be Kingsway International Holdings Limited, which is incorporated in Bermuda and listed on the Toronto Stock Exchange.

41 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 30 June 2006

Up to the date of issue of these financial statements, HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 30 June 2006 and which have not been adopted in these financial statements.

Of these developments, the following relate to matters that may be relevant to the Group's operations and financial statements:

	Effective for accounting periods beginning on or after
– Amendments to HKAS 39, Financial instruments: Recognition and measurement:	1 July 2006
– The fair value option	
– Financial guarantee contracts	
– HKFRS 7, Financial instruments: disclosures	1 July 2007
– Amendment to HKAS 1, Presentation of financial statements: capital disclosures	1 July 2007

In addition, the Hong Kong Companies (Amendment) Ordinance 2005 came into effect on 1 December 2005 and would be first applicable to the Group's financial statements for the period beginning 1 July 2006.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application.