# Notes to Condensed Interim Financial Statements

(Expressed in Hong Kong dollars)

## 1 Basis of preparation

The unaudited condensed consolidated interim financial statements ("Interim Financial Statements") are prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The Interim Financial Statements are prepared on a basis consistent with the accounting policies adopted in the 2006 annual financial statements.

## 2 Discontinued operations

In December 2006, the Group announced that it was in negotiations with independent third parties in respect of a possible disposal of certain of the Group's assets. On 10 January 2007, Kingsway Asset Management Limited ("KAM"), a wholly-owned subsidiary of the Company, entered into a memorandum of understanding with a third party buyer to dispose of its entire shareholding interest in Kingsway Fund Management Limited ("KFM"). KFM is a subsidiary principally engaging in the wealth management business. The disposal transaction is expected to be completed within this financial year.

The assets and liabilities of the wealth management business segment have been classified as held for sales and carried at their carrying amounts since their carrying amounts are recovered principally through a sales transaction rather than through a continuing use in accordance with HKFRS 5 "Non-current assets held for sales and discontinued operations" issued by the HKICPA. The results, cash flows and the segment information in respect of the wealth management business segment have been presented as discontinued operations. The 2005 comparative figures of the income statement, cash flow statement and the segment information in respect of the wealth management business segment have been re-presented as discontinued operations accordingly.

## 2 Discontinued operations (Continued)

An analysis of the results and cash flow statement of the wealth management business segment are set out below:

| | Six months ended 31 December 2006 | 2005 |
|---|---|---|
| **Discontinued operations:** | | |
| Revenues | **$ 6,872,822** | $ 6,246,527 |
| Expenses | **(5,640,373)** | (5,663,287) |
| Profit before taxation from discontinued operations | **$ 1,232,449** | $ 583,240 |
| Income tax | **–** | – |
| Profit after tax from discontinued operations | **$ 1,232,449** | $ 583,240 |
| **Discontinued operations:** | | |
| Net cash inflow/(outflow) from operating activities | **$ 939,060** | $ (402,411) |

An analysis of the assets and liabilities of the disposal group is as follows:

| | 31 December 2006 |
|---|---|
| **Assets of disposal group classified as held for sale** | |
| Cash and cash equivalents | **$ 6,974,548** |
| Accounts receivable | **259,990** |
| Other properties and equipment | **43,699** |
| Other assets | **833** |
| **Total assets of the disposal group** | **$ 7,279,070** |
| **Liabilities of disposal group classified as held for sale** | |
| Accounts payable | **$ 51,218** |
| Other liabilities | **404,054** |
| **Total liabilities of the disposal group** | **$ 455,272** |

# Notes to Condensed Interim Financial Statements

(Expressed in Hong Kong dollars)

## 3 Segment information

### (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 were included in the segment result for the merchant banking segment.

## 3 Segment information (Continued)

### (A) BY BUSINESS SEGMENTS (CONTINUED)

| | Six months ended 31 December 2006 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Continuing operations | | | | | | | Discontinued operations | Eliminations | Consolidated |
| | Investment in securities | Merchant banking | Brokerage | Investment banking | Private equity | Others | Total | Wealth management | | |
| **Revenues** | | | | | | | | | | |
| Turnover | $ 20,327,825 | $ (860,209) | $ 25,818,887 | $ 15,322,527 | $ 2,500,785 | $ 2,703,530 | $ 65,813,345 | $ 1,405,815 | $ (1,437,885) | $ 65,781,275 |
| Inter-segment revenues | 10,489 | – | 757,092 | – | 1,296,649 | 5,802,235 | 7,866,465 | 5,465,954 | – | 13,332,419 |
| Other income | (8,306) | (7,890) | 1,188,553 | 50,703 | 2,950 | 1,059,985 | 2,285,995 | 1,053 | (512,550) | 1,774,498 |
| | $ 20,330,008 | $ (868,099) | $ 27,764,532 | $ 15,373,230 | $ 3,800,384 | $ 9,565,750 | $ 75,965,805 | $ 6,872,822 | $ (1,950,435) | $ 80,888,192 |
| Eliminations | | | | | | | (7,866,465) | (5,465,954) | – | (13,332,419) |
| Total revenues | | | | | | | $ 68,099,340 | $ 1,406,868 | $ (1,950,435) | $ 67,555,773 |
| **Segment results** | $ 9,144,228 | $ 1,544,458 | $ 320,575 | $ 9,532,820 | $ (87,071) | $ (7,941,312) | $ 12,513,698 | $ 1,232,449 | $ – | $ 13,746,147 |
| Share of (losses)/profits of associates | $ – | $ (587,178) | $ 312,451 | $ – | $ (341,637) | $ – | (616,364) | – | – | (616,364) |
| Share of losses of jointly controlled entities | – | (719,183) | – | – | – | – | (719,183) | – | – | (719,183) |
| Profit before taxation | | | | | | | $ 11,178,151 | $ 1,232,449 | $ – | $ 12,410,600 |

| | Six months ended 31 December 2005 (restated) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Continuing operations | | | | | | | Discontinued operations | Eliminations | Consolidated |
| | Investment in securities | Merchant banking | Brokerage | Investment banking | Private equity | Others | Total | Wealth management | | |
| **Revenues** | | | | | | | | | | |
| Turnover | $ (4,670,581) | $ 29,055,578 | $ 25,502,197 | $ 16,843,603 | $ 3,023,900 | $ 1,214,060 | $ 70,968,757 | $ 1,131,384 | $ (935,695) | $ 71,164,446 |
| Inter-segment revenues | 213,970 | – | 4,282,593 | – | 1,030,570 | 6,234,945 | 11,762,078 | 5,115,143 | – | 16,877,221 |
| Other income | – | – | 1,143,039 | 230,027 | 200 | 1,025,551 | 2,398,817 | – | (156,625) | 2,242,192 |
| | $ (4,456,611) | $ 29,055,578 | $ 30,927,829 | $ 17,073,630 | $ 4,054,670 | $ 8,474,556 | $ 85,129,652 | $ 6,246,527 | $ (1,092,320) | $ 90,283,859 |
| Eliminations | | | | | | | (11,762,078) | (5,115,143) | – | (16,877,221) |
| Total revenues | | | | | | | $ 73,367,574 | $ 1,131,384 | $ (1,092,320) | $ 73,406,638 |
| **Segment results** | $ (16,279,473) | $ 61,798,909 | $ 4,749,190 | $ 8,008,198 | $ 1,146,379 | $ (9,411,461) | $ 50,011,742 | $ 583,240 | $ – | $ 50,594,982 |
| Share of (losses) / profits of associates | $ – | $ (208,280) | $ (124,983) | $ – | $ 75,930 | $ – | (257,333) | – | – | (257,333) |
| Share of losses of jointly controlled entities | – | – | – | – | – | – | – | – | – | – |
| Profit before taxation | | | | | | | $ 49,754,409 | $ 583,240 | $ – | $ 50,337,649 |

(Expressed in Hong Kong dollars)

## 3 Segment information (Continued)

### (B) BY GEOGRAPHICAL SEGMENTS

The following table provides an analysis of the Group's turnover by geographical markets:

| | Six months ended 31 December | |
|---|---|---|
| | **2006** | 2005 (restated) |
| Hong Kong | **$ 67,680,766** | $ 39,826,926 |
| The People's Republic of China (the "PRC") | **412,312** | 2,588,620 |
| Japan | **(15,288,441)** | 29,177,743 |
| Canada | **6,581,222** | (358,233) |
| Other markets | **6,427,486** | (266,299) |
| | **$ 65,813,345** | $ 70,968,757 |

## 4 Profit before taxation

### PROFIT BEFORE TAXATION IS ARRIVED AT AFTER CREDITING/(CHARGING):

| | Six months ended 31 December | |
|---|---|---|
| | **2006** | 2005 (restated) |
| Dividend from listed equity securities | **$ 3,453,120** | $ 3,975,789 |
| Interest income from | | |
| – bank deposits | **2,419,181** | 1,663,923 |
| – others | **8,695,589** | 5,738,937 |
| Reversal of impairment losses for doubtful debts (net) | **1,037,037** | 880,000 |
| Net exchange gain | **136,756** | – |
| Staff costs | **$ (25,009,102)** | $ (31,843,277) |
| Operating charges – land and buildings | **(4,142,409)** | (976,212) |
| Depreciation | **(1,481,004)** | (1,141,248) |
| Interest on | | |
| – bank loans and overdrafts | **(6,831,484)** | (2,088,896) |
| – others | **(2,004,215)** | (3,962,382) |
| Net loss on disposal of equipment | **(3,427)** | (17,911) |
| Net exchange loss | **–** | (1,827,397) |

## 5 Income tax

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

| | Six months ended 31 December | |
|---|---|---|
| | **2006** | 2005 |
| **Current tax – Provision for Hong Kong Profits Tax** | | |
| – Tax for the period | **$ 1,485,996** | $ 1,317,514 |
| – Under/(over) provision in prior periods | **400,000** | (895,767) |
| | **$ 1,885,996** | $ 421,747 |
| **Deferred taxation** | | |
| Origination and reversal of temporary differences | **129,717** | 15,888,380 |
| Taxation charge | **$ 2,015,713** | $ 16,310,127 |

The Group has not recognised deferred tax assets in respect of tax losses of approximately $194 million (30 June 2006: $194 million). The tax losses do not expire under current tax regulation.

## 6 Dividends

### (A) DIVIDENDS PAYABLE TO EQUITY SHAREHOLDERS OF THE COMPANY ATTRIBUTABLE TO THE INTERIM PERIOD

| | Six months ended 31 December | |
|---|---|---|
| | **2006** | 2005 |
| Interim dividend payable of 0.33 cent per share (2005: 0.33 cent per share) | **$ 10,719,139** | $ 10,719,139 |

At a meeting held on 12 February 2007, the directors declared an interim dividend of 0.33 cent per share, totalling $10,719,139 (note 16) based on the number of shares in issue at 12 February 2007. This dividend is not reflected as a dividend payable in these Interim Financial Statements.

### (B) FINAL DIVIDEND ATTRIBUTABLE TO THE FINANCIAL YEAR ENDED 30 JUNE 2006

At a meeting held on 13 September 2006, the directors proposed a final dividend of 0.67 cent per share for the year ended 30 June 2006, totalling $21,763,100 (note 16) based on the number of shares in issue at 13 September 2006. On 3 November 2006, the final dividend was paid to shareholders and has been reflected as an appropriation of retained profits in the current period.

(Expressed in Hong Kong dollars)

## 7 Earnings per share

### FROM CONTINUING AND DISCONTINUED OPERATIONS

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of $13,438,870 (2005: $26,214,660) and on 3,248,223,906 (2005: 3,248,223,906) ordinary shares in issue during the period.

### FROM CONTINUING OPERATIONS

The calculation of the basic earnings per share from continuing operations is based on the following information:

| | 31 December | |
|---|---|---|
| | **2006** | 2005 |
| Earnings for the period attributable to equity shareholders of the Company | **$ 13,438,870** | $ 26,214,660 |
| Less: Earnings for the period from discontinued operations | **(1,232,449)** | (583,240) |
| | **$ 12,206,421** | $ 25,631,420 |

The denominators used are the same as those detailed above for basic earnings per share from continuing and discontinued operations.

### FROM DISCONTINUED OPERATIONS

Basic earnings per share for discontinued operations is 0.04 cent (2005: 0.02 cent) which is calculated based on the profit for the period from discontinued operations of $1,232,449 (2005: $583,240). The denominators used are the same as those detailed above for basic earnings per share from continuing and discontinued operations.

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

## 8 Disposal of subsidiaries

During the period, the Group sold a 50% shareholding interest in a wholly-owned subsidiary, Total Express Investment Limited ("Total Express"), to an independent third party, resulting in a gain on disposal of $1,763,253. Total Express is the intermediate holding company of Overseas Billion Limited, Well Talent Limited and Luxury Development Limited which jointly held the entire interest in the Group's investment properties in the PRC which had a fair value of RMB288,600,000 (Equivalent to $280,357,490) at 30 June 2006.

As a result of the disposal, Total Express and its subsidiaries were reclassified as jointly controlled entities of the Group. The fair value of the investment properties in PRC held by the jointly controlled entities was RMB288,600,000 (Equivalent to $287,593,423) at 31 December 2006. The investment properties were valued on 30 June 2006 and 31 December 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.

The valuation gains on investment properties of $4,538,858 represents an exchange gain in respect of the appreciation of Renminbi from 1 July 2006 to the completion date of the disposal of Total Express.

## 9 Financial assets at fair value through profit or loss

| | **31 December 2006** | 30 June 2006 |
|---|---|---|
| Listed equity securities, at fair value | | |
| – in Hong Kong | **$ 238,465,449** | $ 200,557,434 |
| – outside Hong Kong | **72,327,372** | 39,647,866 |
| | **$ 310,792,821** | $ 240,205,300 |
| Unlisted investments, at fair value | | |
| – equity securities | **$ –** | $ 1,170,300 |
| – unit trust fund | **1,749,720** | 1,520,910 |
| – debt securities | **33,784,250** | 47,917,771 |
| | **$ 35,533,970** | $ 50,608,981 |
| | **$ 346,326,791** | $ 290,814,281 |
| Market value of listed equity securities | **$ 312,809,093** | $ 282,253,558 |

(Expressed in Hong Kong dollars)

## 10 Accounts, loans and other receivables

| | Note | 31 December 2006 | 30 June 2006 |
|---|---|---|---|
| **Accounts and loans receivables, net of provisions:** | | | |
| Amounts due from brokers and clearing houses | (a) | **$ 14,164,284** | $ 13,283,084 |
| Amounts due from margin clients | (b) | **52,674,324** | 60,922,303 |
| Amounts due from cash clients | (c) | **33,901,756** | 50,646,561 |
| Loans receivable | (d) | **7,586,174** | 6,680,940 |
| Others | | **3,591,850** | 2,856,790 |
| | | **$ 111,918,388** | $ 134,389,678 |
| Prepayments, deposits and other receivables | | **3,135,430** | 8,854,590 |
| | | **$ 115,053,818** | $ 143,244,268 |

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

| | 31 December 2006 | 30 June 2006 |
|---|---|---|
| Current and within 1 month | **$ 108,688,482** | $ 132,713,094 |
| More than 1 month and less than 3 months | **333,333** | 592,683 |
| More than 3 months | **2,896,573** | 1,083,901 |
| | **$ 111,918,388** | $ 134,389,678 |

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 31 December 2006, the Group held $13,162,828 (30 June 2006: $8,329,827) with HKFECC in trust for clients which was not dealt with in these Interim 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 collateral pledged by the borrower.

## 11 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 31 December 2006, segregated clients' accounts not otherwise dealt with in these Interim Financial Statements amounted to $268,216,866 (30 June 2006: $178,346,909).

## 12 Accruals, accounts and other payables

| | 31 December 2006 | 30 June 2006 |
|---|---|---|
| **Accounts payable (current and within 1 month)** | | |
| Amounts due to brokers and clearing houses | **$ 24,213,705** | $ 10,174,707 |
| Clients' accounts payable (net of bank and clearing house balances in segregated client's accounts) | **29,428,922** | 56,282,458 |
| Others | **2,784,837** | 8,024,503 |
| | **$ 56,427,464** | $ 74,481,668 |
| Other creditors and accruals | **20,636,801** | 40,317,188 |
| | **$ 77,064,265** | $ 114,798,856 |

## 13 Bank loans

| | 31 December 2006 | 30 June 2006 |
|---|---|---|
| Secured bank loans (Note) | **$ 6,321,967** | $ 117,703,042 |
| The bank loans are repayable as follows: | | |
| Within 1 year or on demand | **$ 530,244** | $ 5,142,752 |
| After 1 year but within 2 years | **572,099** | 5,505,947 |
| After 2 years but within 5 years | **2,001,169** | 18,961,718 |
| After 5 years | **3,218,455** | 88,092,625 |
| | **$ 6,321,967** | $ 117,703,042 |
| Less: amount due after 1 year shown under non-current liabilities | **(5,791,723)** | (112,560,290) |
| | **$ 530,244** | $ 5,142,752 |

(Expressed in Hong Kong dollars)

## 13 Bank loans (Continued)

Note: Certain banking facilities of the Group were secured by the Group's securities held for trading and the Group's bank deposits with market value of $31,942,543 (30 June 2006: $44,596,691) and $209,128 (30 June 2006: $4,225,273) respectively. The banking facilities had not been utilised as at 31 December 2006 and 30 June 2006.

As at 31 December 2006, the Group's buildings held for own use with carrying values of $14,429,497 (30 June 2006: $13,163,008) have been pledged as securities for the Group's bank loans. Banking facilities of $6,321,967 had been utilised as at 31 December 2006 (30 June 2006: $6,569,917).

As at 30 June 2006, the Group's investment properties with carrying values of $280,357,490 have been pledged as securities for the Group's bank loans. The banking facilities had been utilised by $111,133,125.

## 14 Obligations under finance leases

At 31 December 2006, the Group had obligations under finance leases repayable as follows:

| | 31 December 2006 | |
|---|---|---|
| | Present value of the minimum lease payments | Total minimum lease payments |
| Within 1 year | $ 422,358 | $ 675,600 |
| After 1 year but within 2 years | $ 473,367 | $ 675,600 |
| After 2 years but within 5 years | 1,504,429 | 1,745,300 |
| | $ 1,977,796 | $ 2,420,900 |
| | $ 2,400,154 | $ 3,096,500 |
| Less: total future interest expenses | | (696,346) |
| Present value of lease obligations | | $ 2,400,154 |

The Group did not have any obligations under finance leases at 30 June 2006.

## 15 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 30 June 2006 and 31 December 2006 | 3,248,223,906 | $ 324,822,391 |

Details of the share options outstanding as at 31 December 2006 are disclosed under the section "Share options" on page 26.

## 16 Retained profits

| | 31 December 2006 | 30 June 2006 |
|---|---|---|
| 2007 interim dividend (Note 6(a)) | **$ 10,719,139** | $ – |
| 2006 proposed final dividend (Note 6(b)) | **–** | 21,763,100 |
| Others | **151,252,566** | 148,532,835 |
| | **$ 161,971,705** | $ 170,295,935 |

## 17 Commitments

### (A) CAPITAL COMMITMENTS

| | 31 December 2006 | 30 June 2006 |
|---|---|---|
| Contracted but not provided for | **$ –** | $ 1,260,131 |

### (B) OTHER COMMITMENTS

The Group committed to make advance to Total Express and its subsidiaries for their working capital requirements, repayment of bank loans and payment of expenses in relation to the investment properties in Beijing up to a maximum of $33,900,000. The Group has contributed $12,800,000 during the period and the outstanding commitment at 31 December 2006 was $21,100,000.

### (C) COMMITMENTS UNDER OPERATING LEASES

**(i) As lessee**

As at 31 December 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

| | Land and buildings | | Office equipment | |
|---|---|---|---|---|
| | 31 December 2006 | 30 June 2006 | 31 December 2006 | 30 June 2006 |
| Not later than 1 year | **$ 8,632,168** | $ 6,366,791 | **$ –** | $ 441,600 |
| Later than 1 year and not later than 5 years | **32,629,779** | 32,250,000 | **–** | 736,000 |
| Over 5 years | **4,031,250** | 8,062,500 | **–** | – |
| | **$ 45,293,197** | $ 46,679,291 | **$ –** | $ 1,177,600 |

(Expressed in Hong Kong dollars)

## 17 Commitments (Continued)

### (C) COMMITMENTS UNDER OPERATING LEASES (Continued)

#### (ii) As lessor

As at 31 December 2006, the Group had future minimum lease payments receivable under non-cancellable operating lease as follows:

| | 31 December 2006 | 30 June 2006 |
|---|---|---|
| Not later than 1 year | **$ 15,600** | $ 11,700 |

## 18 Contingent liabilities

| | Company | |
|---|---|---|
| | 31 December 2006 | 30 June 2006 |
| Guarantees for banking facilities to subsidiaries and jointly controlled entities | **$ 873,886,417** | $ 881,536,503 |

## 19 Material related party transactions

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 are as follows:

| | | Six months ended 31 December | |
|---|---|---|---|
| | Note | 2006 | 2005 |
| Brokerage commission earned on securities and futures dealing | (a) | **$ 1,168,295** | $ 2,027,702 |
| Common office expenses recharged | (b) | **377,610** | 89,328 |
| Consultancy and management fee received | (c) | **1,016,275** | 474,533 |

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 a fellow subsidiary, jointly controlled entities and 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.

## 20 Financial instruments

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk, market risk, foreign exchange 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.

### (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.

## 20 Financial instruments (Continued)

### (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 loans 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.

## 21 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ending 30 June 2007

Up to the date of issue of these Interim Financial Statements, HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting period ending 30 June 2007 and which have not been adopted in these Interim 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** |
|---|---|
| – HKFRS 7, Financial instruments: disclosures | 1 July 2007 |
| – Amendment to HKAS 1, Presentation of financial statements: capital disclosures | 1 July 2007 |

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.