

1. Group reorganisation and basis of preparation

The Company was incorporated in Bermuda on 19th April 2000. Its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 1st August 2000.

Pursuant to a group reorganisation (the “Reorganisation”) in preparation for the listing of the Company’s shares on the Stock Exchange, the Company acquired the entire issued share capital of Hantec Strategic (BVI) Holdings Limited (“HSBVIHL”) through a share swap on 10th July 2000, and consequently became the holding company of the Group. Prior to the Reorganisation, Hantec Holdings Limited (“HHL”) was the holding company of the Group. The Company and its subsidiaries resulting from the Reorganisation have been regarded as a continuing group.

Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the consolidated financial statements have been prepared as if the Company had been the holding company of the other companies comprising the Group from 1st January 1999 rather than from the date on which the Reorganisation was completed.

The accounts have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. The accounts are prepared under the historical cost convention as modified by the revaluation of certain investment properties, investments in securities, foreign exchange contracts and off-balance sheet financial instruments.

2. Principal accounting policies

The principal accounting policies adopted in the preparation of these consolidated accounts are set out below:

(a) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

In the Company’s balance sheet the investments in subsidiaries are stated at cost less provision, if necessary, for any permanent diminution in value. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(b) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm’s length.

Notes to the Accounts

2. Principal accounting policies (continued)

(b) Investment properties (continued)

Investment properties held on leases with unexpired periods greater than 20 years are valued at intervals of not more than three years by independent valuers; in each of the intervening years valuations are undertaken by professionally qualified executives of the Group. The valuations are on an open market valuation basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining portion of the leases.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

(c) Fixed assets

Fixed assets other than investment properties are stated at cost less accumulated depreciation. They are depreciated at rates sufficient to write off their cost over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold improvements	over the lease term
Furniture and fixtures	20%
Office equipment	20%
Motor vehicles	25%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have been discounted in determining the recoverable amount.

The gain or loss on disposal of a fixed asset other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

2. Principal accounting policies (continued)

(d) 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. Rentals applicable to such operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

(e) Investments in securities

Investments in securities are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of investments in securities are recognised in the profit and loss account. Profits or losses on disposal of these investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(f) Trade and other receivables

Provision is made against trade and other receivables to the extent that they are considered to be doubtful. Trade and other receivables in the balance sheet are stated net of such provision.

(g) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or asset is expected to be payable or recoverable in the foreseeable future.

(h) Translation of foreign currencies

Spot foreign exchange contracts with clients/brokers are recorded at contractual rates applicable to those transactions. Other transactions in foreign currencies are translated at exchange rates ruling at the transaction dates.

Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

(i) Revenue recognition

Brokerage commission on leveraged foreign exchange transactions are recognised and accounted for on a trade date basis.

Notes to the Accounts

2. Principal accounting policies (continued)

(i) Revenue recognition (continued)

The foreign currency option contracts are generated by client orders. The Group does not ordinarily take proprietary positions in foreign currency option contracts. No option contract is entered into with clients if a corresponding contract cannot be negotiated and concluded with recognised counterparties. Premium income from foreign currency option contracts is recognised on trade date basis when the Group writes currency option contracts. Premium expenses for foreign currency option contracts are recognised on a trade date basis when the Group purchases the option contracts from clients or recognised counterparties.

The swap interest and foreign exchange spread in relation to open positions arising from leveraged foreign exchange transactions are recognised on an accrual basis as swap interest and foreign exchange trading revenue.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Dividends income is recognised when the right to receive payment is established.

(j) Retirement benefit costs

The Group's contributions to the defined contribution retirement scheme and mandatory provident fund are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the schemes are held separately from those of the Group in an independently administered fund.

(k) Finance costs

Finance costs are charged to the profit and loss account in the year in which they are incurred.

(l) Off balance sheet financial instruments

Off balance sheet financial instruments arising from the leveraged foreign exchange trading and option transactions are marked to market and the gain or loss thereof is recognised in the profit and loss account as trading profits or losses.

Notes to the Accounts

3. Turnover and other revenues

The Group is principally engaged in the provision of brokerage services of leveraged foreign exchange and currency options trading to clients.

	2000 HK\$'000	1999 HK\$'000
Turnover		
Commission on foreign currency spot contracts	13,090	2,974
Net premium income from foreign currency option contracts	30,441	77,694
Swap interest and foreign exchange trading revenue	27,161	18,574
	70,692	99,242
Interest income	13,901	15,521
	84,593	114,763
Other revenues		
Gain on sale of investments in securities	236	–
Unrealised gain on investments in securities	34	–
Other income including exchange gains	944	709
	1,214	709
Total revenues	85,807	115,472

No geographical analysis on turnover is provided as all the business is considered to be derived and transacted within Hong Kong, except for interest income which are analysed by geographical location as follows:

	2000 HK\$'000	1999 HK\$'000
Interest income derived inside Hong Kong	2,995	3,958
Interest income derived outside Hong Kong	10,906	11,563
	13,901	15,521

*Notes to the Accounts***4. Operating expenses**

	2000 HK\$'000	1999 HK\$'000
Auditors' remuneration	600	300
Depreciation of fixed assets	321	16
Directors' emoluments (Note 11(a))	4,946	25,961
Interest paid to clients on margin deposits	890	3,466
Financial advisory fee paid to a fellow subsidiary (Note 25(d))	1,400	1,200
Legal and professional fees	651	703
Rent and rates (Note 25(e))	2,804	2,100
Staff salaries including commission and rebates (Note 11(b))	28,873	13,296
Other miscellaneous expenses	10,168	14,551
	50,653	61,593

5. Finance costs

	2000 HK\$'000	1999 HK\$'000
Interest on bank overdraft	1	–
Interest on mortgage loan	83	–
	84	–

Notes to the Accounts

6. Taxation

Hong Kong profits tax has been provided at the rate of 16% (1999: 16%) on the estimated assessable profit for the year.

The amount of taxation charged to the consolidated profit and loss account represents:

	2000	1999
	HK\$'000	HK\$'000
Hong Kong profits tax	4,000	7,167
1997/98 Hong Kong profits tax rebate	–	(757)
Over provisions in prior years	(294)	(105)
	3,706	6,305

There was no material unprovided deferred taxation for the year.

7. Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of a profit of HK\$15,470,925.

Notes to the Accounts

8. Dividends

	2000 HK\$'000	1999 HK\$'000
Special, paid, of HK\$0.1 (1999: HK\$Nil) per ordinary share (a)	10,000	–
First interim, paid, of HK\$0.025 (1999: HK\$0.4878) per ordinary share (b)	7,475	40,000
Second interim, paid, of HK\$Nil (1999: HK\$0.3) per ordinary share (b)	–	30,000
Final, proposed, of HK\$0.025 (1999: HK\$Nil) per ordinary share (c)	7,475	–
	24,950	70,000

- (a) Prior to the Reorganisation, on 25th May 2000, a special dividend of HK\$0.1 per share was declared by HIL, the wholly owned subsidiary of the Company, to its then shareholders out of the retained profit of HIL and was paid on 5th June 2000.
- (b) On 26th September 2000, the directors of the Company proposed the payment of an interim dividend of HK\$0.025 per share. The dividend was subsequently paid on 26th October 2000.
- (c) The directors proposed the payment of a final dividend of HK\$0.025 per share.

9. Earnings per share

The calculation of basic earnings per share are based on the Group's profit after tax of HK\$31,363,523 (1999: HK\$47,574,060) and the weighted average of 255,396,000 shares (1999: 224,250,000) deemed to be issued during the year. In determining the weighted average number of shares in issue, the 2,000,000 shares issued before the capitalisation issue and the capitalisation issue of 222,250,000 shares as referred to in Notes 19(b) and (e) were deemed to have been in issue throughout the accounting periods presented.

Diluted earnings per share for the years ended 31st December 2000 and 1999 was not disclosed as there were no dilutive potential ordinary shares.

10. Retirement benefit costs

The Group operates defined contribution retirement schemes for all eligible employees through its ultimate holding company up to 30th November 2000. The Group contributes to the scheme at 5% of the eligible employee's basic monthly salaries whilst the eligible employees made monthly voluntary contributions. The Group's contributions to the scheme are expensed as incurred. The contributions for the period to 30th November 2000 were HK\$462,454 (1999: HK\$299,865).

On 1st December 2000, the Group has separately joined the Mandatory Provident Fund ("MPF") which has replaced the defined contribution retirement schemes operated by HHL group. According to the rules of the MPF schemes for employees, the Group contributes to the scheme at lower of 5% of the eligible employee's basic monthly salaries or HK\$2,500 per month whilst the eligible employees make contributions at a minimum 5% of basic monthly salaries. The assets of the scheme are held separately from those of the Group and the funds are under the control of the MPF services provider. The Group's contributions to the MPF schemes are expensed as incurred. The contribution for December 2000 was HK\$61,468.

As at 31st December 2000, the forfeited contributions available to offset future contributions payable amounted to HK\$30,360 (1999: HK\$23,000).

Notes to the Accounts

11. Directors' and senior management's emoluments

(a) Directors' emoluments

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	2000 HK\$'000	1999 HK\$'000
Fees	190	–
Other emoluments:		
Basic salaries and other allowances	3,800	8,577
Commissions and rebates	–	17,384
Bonuses	810	–
Contributions to pensions schemes for directors	146	–
	4,946	25,961

The emoluments of the directors fell within the following bands:

Emolument bands	Number of directors	
	2000	1999
HK\$Nil – HK\$1,000,000	6	3
HK\$1,000,001 – HK\$1,500,000	3	1
HK\$4,500,001 – HK\$5,000,000	–	1
HK\$18,500,001 – HK\$19,000,000	–	1

No directors of the Company waived any emoluments and no incentive payment or compensation for loss of office was paid or payable to any director of the Company during the year (1999: HK\$Nil).

11. Directors' and senior management's emoluments (continued)

(a) Directors' emoluments (continued)

In accordance with the service agreements signed by the directors on 10th July 2000, the directors are not entitled to direct commission on foreign currency brokerage effective from 1st June 2000. Instead the directors are entitled to a management bonus with reference to and not exceeding 15% of the net profit before the calculation of such bonus.

Directors' fees disclosed above include HK\$140,000 (1999: HK\$Nil) paid to independent non-executive directors and HK\$50,000 (1999: HK\$Nil) paid to a non-executive director.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three directors (1999: four) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (1999: one) individuals during the year are as follows:

	2000	1999
	HK\$'000	HK\$'000
Basic salaries and other allowances	980	725
Bonuses	230	–
Pensions	44	–
	1,254	725

*Notes to the Accounts***11. Directors' and senior management's emoluments (continued)****(b) Five highest paid individuals (continued)**

The emoluments fell within the following bands:

Emolument bands	Number of individuals	
	2000	1999
HK\$Nil – HK\$1,000,000	2	1

Notes to the Accounts

12. Fixed assets

	Group					
	Investment Property	Leasehold Improvements	Furniture & Fixtures	Office Equipment	Motor Vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost						
At 1st January 2000	15,544	–	–	205	–	15,749
Additions	–	468	1,107	1,040	1,224	3,839
Disposals	(15,544)	–	–	–	–	(15,544)
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At 31st December 2000	–	468	1,107	1,245	1,224	4,044
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Accumulated depreciation						
At 1st January 2000	–	–	–	16	–	16
Charge for the year	–	53	105	138	25	321
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At 31st December 2000	–	53	105	154	25	337
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Net book value						
At 31st December 2000	–	415	1,002	1,091	1,199	3,707
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At 31st December 1999	15,544	–	–	189	–	15,733
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- (a) The Group's interest in the investment property, which is located in Hong Kong, was acquired on 6th November 1999 from a third party. The directors consider that the carrying amount and the purchase price of HK\$15,544,040 best represents the market value of the property as at 31st December 1999.

At 31st December 1999, the investment property was pledged as security to a bank to secure a bank loan of HK\$3,000,000 for the Group and a bank overdraft facility of HK\$7,000,000 for a fellow subsidiary.

*Notes to the Accounts***12. Fixed assets (continued)**

The directors determined that investing in investment property was not part of the Group's operations, and therefore, the Group sold the investment property for cash to a related company, which is owned by one of the directors of the Group, at book value with no gain or loss on disposal on 5th April 2000.

- (b) During 1999 and up to 31st May 2000, HIL, the Company's major subsidiary, shared with HHL group the use of fixed assets, including office equipment, office and branch premises, leasehold improvements, furniture and fixtures and motor vehicles. HIL reimbursed HHL for its use of fixed assets based on commercial terms.

Since 1st June 2000, the Group purchased its own fixed assets and ceased to share with the HHL group the use of fixed assets other than the share of premises as disclosed in Note 25(e).

13. Investments in subsidiaries and dividend receivable

	Company 2000
	HK\$'000
Investments at cost	140,776
Amounts due from subsidiary (Note (a))	40,000
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	180,776
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Dividend receivable	16,000
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- (a) The amounts due from the subsidiary were unsecured, interest free and have no fixed terms for repayment.

13. Investments in subsidiaries and dividend receivable (continued)

(b) The following is a list of the principal subsidiaries at 31st December 2000:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Interest held
Hantec Strategic (BVI) Holdings Limited ("HSBVIHL")	British Virgin Islands	Investment Holding in Hong Kong	50,000 Ordinary shares of US\$1 each	100%
Hantec International Limited ("HIL")*	Hong Kong	Licensed Leveraged Foreign Exchange Trader in Hong Kong	100 Ordinary shares of HK\$1 each, and 100,000,000 non-voting deferred shares of HK\$1 each	100%

* Shares held indirectly by the Company.

14. Investments in securities

	Group		Company
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000
Equity securities, at market value:			
– Listed in Hong Kong	109	–	109

Notes to the Accounts

15. Trade and other receivables

	Group		Company
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000
Accounts receivable arising in the ordinary course of business of leveraged foreign exchange trading:			
– clients	6,755	5,764	–
– recognised counterparties that are authorised institutions (Note (a) to (c))	109,618	56,326	–
– recognised counterparties that are not authorised institutions (Note (a) to (c))	56	708	2
	116,429	62,798	2
Prepayments and other receivables	2,385	645	423
	118,814	63,443	425
(a) Accounts receivable arising in the ordinary course of business of leveraged foreign exchange trading:			
– recognised counterparties in Hong Kong	18,897	8,514	2
– recognised counterparties outside Hong Kong	90,777	48,520	–
	109,674	57,034	2

15. Trade and other receivables *(continued)*

- (b) A recognised counterparty is a counterparty of a licensed leveraged foreign exchange trader recognised under the Leveraged Foreign Exchange Trading Ordinance which includes an authorised institution under the Banking Ordinance.
- (c) The accounts receivable from recognised counterparties at 31st December 2000 include margin deposits in respect of transactions in leveraged foreign exchange.
- (d) The accounts receivable arising in the ordinary course of business on leveraged foreign exchange trading are current and due on demand. There is no provision charged for bad and doubtful debts during the years ended 31st December 2000 and 1999.

Notes to the Accounts

16. Bank balances and cash

	Group		Company
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000
Cash in hand	5	–	–
Bank balances (Note (a))			
– general accounts (Note (b))	89,042	67,294	12,960
– segregated trust accounts	57,157	81,772	–
	146,204	149,066	12,960
(a) By geographical location			
– Deposited with banks inside Hong Kong	36,441	74,985	12,960
– Deposited with banks outside Hong Kong	109,758	74,081	–
	146,199	149,066	12,960
(b) By maturity			
Bank balances – general accounts			
– Current and savings account	23,887	33,119	12,960
– Fixed deposits (maturing within three months)	65,155	34,175	–
	89,042	67,294	12,960

Notes to the Accounts

17. Trade and other payables

	Group		Company
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000
Accounts payable arising in the ordinary course of business of leveraged foreign exchange trading:			
– clients	61,428	87,458	–
– recognised counterparties that are authorised institutions	2,577	854	–
	64,005	88,312	–
Accruals and other payables (a)	3,682	8,043	718
	67,687	96,355	718

- (a) Included in accounts payable at 31st December 1999 were balances due to fellow subsidiaries totalling HK\$2,427,927. There were no accounts payable to fellow subsidiaries as at 31st December 2000.
- (b) The accounts payable arising in the ordinary course of business of leveraged foreign exchange trading are current and payable on demand.

Notes to the Accounts

18. Secured borrowings

	Group		Company
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000
Secured borrowings	–	3,000	–

The secured bank loan was obtained in connection with the purchase of the investment property disclosed in Note 12 from a third party at commercial lending rate. The loan was repaid in full on 5th April 2000, upon the sale of the investment property.

19. Share capital

	2000 HK\$'000
Authorised	
1,000,000,000 ordinary shares of HK\$0.1 each	100,000
Issued and fully paid	
299,000,000 ordinary shares of HK\$0.1 each	29,900

The changes in the Company's share capital which took place since incorporation are as follow:

- (a) The Company was incorporated on 19th April 2000 with an authorised share capital of HK\$100,000 divided into 1,000,000 shares of HK\$0.10 each, all of which were issued as nil paid to HHL on 8th May 2000.

19. Share capital (continued)

- (b) Pursuant to a special resolution passed on 10th July 2000, the authorised share capital of HIL was increased from HK\$100,000,000 to HK\$100,000,100 by the creation of 100 shares of HK\$1.00 each, and HSBVIHL and its nominee subscribed for and were allotted and issued 99 shares and 1 share of HK\$1.00 each in HIL respectively for cash at par.

Pursuant to a special resolution passed on 10th July 2000, the 100,000,000 shares of HK\$1.00 each in the share capital of HIL in issue prior to the allotment referred to as above were converted into 100,000,000 non-voting deferred shares of HK\$1.00 each and the remaining 100 shares of HK\$1.00 each in the share capital of HIL allotted and issued to HSBVIHL and its nominee as above were re-designated as 100 ordinary shares of HK\$1.00 each.

By written resolutions passed on 10th July 2000, the authorised share capital of the Company was increased from HK\$100,000 to HK\$200,000 by the creation of an additional 1,000,000 shares of HK\$0.10 each. Pursuant to the Reorganisation described in Note 1 to the accounts, the Company allotted and issued an additional 1,000,000 shares, credited as fully paid for the newly issued 1,000,000 shares and the 1,000,000 issued nil paid shares held by HHL, as consideration for the acquisition of the entire issued share capital of HSBVIHL.

- (c) By written resolutions of the sole shareholder of the Company on 10th July 2000, the authorised share capital of the Company was further increased from HK\$200,000 to HK\$100,000,000 by the creation of an additional 998,000,000 shares of HK\$0.1 each to rank equally with the existing shares in all respects.
- (d) On 31st July 2000, 14,950,000 ordinary shares of HK\$0.10 each were issued to the public and 59,800,000 shares of HK\$0.10 each were issued under private placement, all were issued at HK\$1.00 each for a total cash consideration of HK\$74,750,000 before the related issuance expenses.
- (e) On 31st July 2000, the Company allotted and issued a total of 222,250,000 shares, credited as fully paid at par, to the sole shareholder of the Company on 10th July 2000, by way of capitalisation of a sum of HK\$22,225,000 standing to the credit of the share premium account of the Company.
- (f) The share capital in the consolidated balance sheet as at 31st December 1999 represents the issued share capital of the Company, arising on incorporation and as a result of the swap transaction to effect the Reorganisation described in Note (b) above, which is deemed to have been issued throughout the accounting periods presented in accordance with the merger basis of accounting as referred to in Note 1.
- (g) Pursuant to the Share Option Scheme approved on 10th July 2000 by the sole shareholder. Options were granted to the directors and executives to subscribe for 13,500,000 ordinary shares of HK\$0.1 each in the Company at HK\$0.66 each exercisable at any time within five years from 2nd February 2001.

Notes to the Accounts

20. Reserves

	Group			
	Share Premium	Retained Profit	Capital Reserves	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As of 1st January 1999 (Note (a))	–	49,690	99,800	149,490
Profit for the year	–	47,574	–	47,574
Dividend paid	–	(70,000)	–	(70,000)
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As of 1st January 2000	–	27,264	99,800	127,064
Premium arising from issuance of ordinary shares	67,275	–	–	67,275
Effect of the Reorganisation (Note (b))	–	–	389	389
Capitalisation issue (Note 19(e))	(22,225)	–	–	(22,225)
Net expenses on the issuance of ordinary shares	(13,970)	–	–	(13,970)
Profit for the year	–	31,364	–	31,364
Cash dividend	–	(24,950)	–	(24,950)
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As of 31st December 2000	31,080	33,678	100,189	164,947
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Company and subsidiaries as of 31st December 2000	31,080	33,678	100,189	164,947
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Company and subsidiaries at 31st December 1999	–	27,264	99,800	127,064
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20. Reserves (continued)

	Company			
	Share	Retained	Contributed	Total
	Premium	Profit	Surplus	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	
As of 1st January 2000	–	–	–	–
Contributed surplus arising from the Reorganisation (Note (c))	–	–	140,576	140,576
Premium on issue of ordinary shares	67,275	–	–	67,275
Capitalisation issue (Note 19(e))	(22,225)	–	–	(22,225)
Net expenses on issuance of ordinary shares	(13,970)	–	–	(13,970)
Profit for the year	–	15,471	–	15,471
Cash dividend (Note 8)	–	(7,475)	(7,475)	(14,950)
As of 31st December 2000	31,080	7,996	133,101	172,177

(a) Capital reserves

The capital reserve of the Group represents the difference between the nominal value of the shares issued by the Company in exchange for the nominal value of the deferred share capital of a subsidiary acquired.

Pursuant to a special resolution passed on 10th July 2000, the 100,000,000 shares of HK\$1.00 each in the share capital of HIL in issue were converted into 100,000,000 non-voting deferred shares of HK\$1.00 each and transferred to capital reserve.

Notes to the Accounts

20. Reserves (continued)

(a) Capital reserves (continued)

The rights and restrictions of the non-voting deferred shares in the capital of HIL are set out below:

- (i) the non-voting deferred shares do not have any rights to participate in the profit distribution of HIL;
- (ii) as regards capital, on a return of capital on liquidation or otherwise, the assets of HIL available for distribution will be paid to the holders of the non-voting deferred shares, limited to HK\$100 million, only if the assets available for distribution exceed HK\$0.1 trillion; and
- (iii) the holders of the non-voting deferred shares are not entitled to receive notice or to attend or vote in any general meeting of HIL.

(b) Effect of the reorganisation

The effect of reorganisation of the Group represented the difference between the nil paid amount of the Company's shares issued, credited as fully paid in Note 19(b), for the acquisition of a subsidiary and the nominal value of the share capital of that subsidiary.

(c) Contributed surplus

Contributed surplus represents the difference between the aggregate net asset value of subsidiaries acquired as a result of the Reorganisation discussed in Note 1 to the accounts and the nominal amount of the Company's shares issued for the acquisition.

(d) Distributable reserve

The Company's reserves as at 31st December 2000 available for distribution to shareholders are represented by the contributed surplus and accumulated profit of approximately HK\$141,097,000.

21. Notes to the consolidated cash flow statement

(a) Reconciliation of operating profit to net cash (outflow)/inflow from operating activities

	2000	1999
	HK\$'000	HK\$'000
Profit before taxation	35,070	53,879
Depreciation of fixed assets	321	16
Interest paid	84	–
Decrease in trust bank account	24,615	90,150
Gain on sale of investments in securities	(236)	–
Unrealised gain in investments in securities	(34)	–
(Increase)/decrease in trade receivable	(53,631)	31,390
(Increase)/decrease in prepayment and other receivables	(1,352)	17,976
Decrease in amount due from fellow subsidiaries	–	34,143
Decrease in trade payable	(24,307)	(91,675)
Decrease in accruals and other liabilities	(4,360)	(101)
Net cash (outflow)/ inflow from operating activities	(23,830)	135,778

Notes to the Accounts

21. Notes to the consolidated cash flow statement (continued)

(b) Analysis of changes in financing during the year

	Share capital		Secured borrowings	
	including share premium			
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
As at 1st January	–	–	3,000	–
Issuance of new shares as part of reorganisation	74,750	–	–	–
Share issue expenses	(13,970)	–	–	–
(Repayment)/drawdown	–	–	(3,000)	3,000
As at 31st December	60,780	–	–	3,000

(c) Major non-cash transaction

Pursuant to the reorganisation described in Note 1 to the accounts, the Company allotted and issued 1,000,000 shares of HK\$0.1 each, credited as fully paid for the newly issued 1,000,000 shares and the 1,000,000 issued nil paid shares held by HHL, as consideration for the acquisition of the entire share capital of Hantec Strategic (BVI) Holdings Limited.

22. Contingent liabilities

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

The directors have commenced a defence action and will continue it vigorously. The directors believe it is too early in the legal proceedings to be able to make an assessment to the likely outcome. However, potential damages, losses, fees, expenses, proceedings and claims which have been and may be incurred by the Group as a result of the action have been covered by a joint and several indemnity, given by the ultimate controlling shareholders and accordingly no provision has been made by the Group as at 31st December 2000.

23. Lease commitments

At 31st December 2000, the Group had commitments to make payments in the next twelve months under operating leases which expire as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
Land and buildings		
Within one year	838	—
In the second to fifth year inclusive	1,494	—
	2,332	—

Notes to the Accounts

24. Assets, liabilities and commitments in foreign currencies

	2000 HK\$'000	1999 HK\$'000
Total assets in foreign currencies included in the balance sheet	236,564	142,804
Total liabilities in foreign currencies included in the balance sheet	40,661	67,876
Total commitments to purchase foreign currencies under leveraged foreign exchange trading contracts (Note (a))	560,241	201,803
Total commitments to sell foreign currencies under leveraged foreign exchange trading contracts (Note (a))	513,606	238,361
Total commitments to purchase foreign currencies under option contracts	1,145,617	4,455,729
Total commitments to sell foreign currencies under option contracts	1,145,617	4,455,729

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

Notes to the Accounts

25. Related party transactions

The following is a summary of significant related party transactions, in addition to those disclosed in Note 10, 12, 17(a) and 22, which were carried out in the normal course of the Group's business.

	2000 HK\$'000	1999 HK\$'000
Interest income from related companies (Note (a))	324	892
Interest expense paid to related parties (Note (b))	(48)	(448)
Commission and brokerage income from related parties (Note (b))	–	460
Swap interest including gains or losses on net foreign exchange positions (Note (b))	–	(355)
Administrative and group support expenses paid to HHL (Note (c))	(3,360)	(15,536)
Financial advisory fee paid to a fellow subsidiary (Note (d))	(1,400)	(1,200)
Office premises occupancy expenses (Note (e))	(1,379)	(2,100)
Brokerage commission paid to a fellow subsidiary (Note (f))	(26)	–

Notes to the Accounts

25. Related party transactions (continued)

- (a) Interest income was received from loans to fellow subsidiaries and the ultimate holding company in the normal course of business at commercial terms before the listing. There is no such lending transactions incurred after the listing of the Company on the Stock Exchange.
- (b) Interest expense was paid to a related company of the common directorship, fellow subsidiaries and immediate family member of one of the Group's director for the margin deposits in respect of leveraged foreign exchange transactions undertaken in the normal course of business at commercial terms.

Swap interest including gains or losses on net foreign exchange positions, commission and brokerage income arising from leveraged foreign exchange transactions undertaken by a related company of common directorship, fellow subsidiaries and immediate family member of one of the Group's director were in the normal course of business was paid at commercial terms.

The related parties ceased to conduct the leveraged foreign exchange trading transactions through HIL since the listing of the Company on the Stock Exchange.

- (c) In 1999 and up to 31st May 2000 certain indirect expenses such as advertisement, general administration and group support expenditures incurred by HHL were charged to HIL based on its turnover proportionate to the HHL Group's turnover. The total amount of such indirect expenses paid by the Group were HK\$3,359,508 in 2000 and HK\$15,535,951 in 1999.

On 1st June 2000, the Group ceased to share such expenditures with the HHL Group.

25. Related party transactions (continued)

- (d) Hantec Capital Limited is a wholly-owned subsidiary of HHL which is principally engaged in corporate finance and financial advisory businesses. During the year, Hantec Capital Limited has provided certain corporate finance advisory services to the Group and the advisory fee paid by the Group to Hantec Capital Limited amounted to HK\$1,400,000 (1999: HK\$1,200,000). The directors consider that the terms of the services provided by Hantec Capital Limited are at normal commercial terms.
- (e) During the year, a total of HK\$1,378,974 was paid to the HHL Group as license fee for the occupancy of the dealing room and the branches pursuant to a Licence Services Agreement with the HHL Group and calculated based on the actual space occupied for the year. For the year ended 31st December 1999, the HHL Group charged the Group operating lease rental of HK\$2,100,000 which was allocated based on the actual space occupied by the Group. The directors consider that the terms of the Licence Services Agreement and the rental charged in 1999 are at normal commercial terms.
- (f) Brokerage commission was paid to a fellow subsidiary in respect of listed securities transactions in Hong Kong undertaken in the normal course of business and at commercial rates.

26. Ultimate holding company

The directors regard Hantec Holdings Limited, a company incorporated in Hong Kong, as being the ultimate holding company.

27. Approval of accounts

The accounts were approved by the board of directors on 9th April 2001.