

# Notes to the Accounts

## 1. THE PRINCIPAL ACCOUNTING POLICIES

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

### (a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (“HKSA”). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain investments in securities, foreign exchange contracts and off-balance sheet financial instruments are stated at fair value.

In the current year, the Group adopted the following Statements of Standard Accounting Practice (“SSAP”) issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2002:

SSAP1 (revised):	Presentation of financial statements
SSAP11 (revised):	Foreign currency translation
SSAP15 (revised):	Cash flow statements
SSAP34 (revised):	Employee benefits

The changes to the Group’s accounting policies and the effect of adopting these new policies are set out below:

### (b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December 2002. Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

# Notes to the Accounts

## 1. THE PRINCIPAL ACCOUNTING POLICIES (continued)

### (b) Consolidation (continued)

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated income statement and also any related accumulated foreign currency translation reserve.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses, 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.

### (c) Associated companies

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated income statement includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies.

In the Company's balance sheet the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of dividends received and receivable.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

### (d) Fixed assets

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

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

# Notes to the Accounts

## 1. THE PRINCIPAL ACCOUNTING POLICIES (continued)

### (d) Fixed assets (continued)

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

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the income statement.

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

### (e) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the income statement on a straight-line basis over the lease periods.

### (f) Intangible assets

#### (i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiaries/associated companies at the date of acquisition.

Goodwill on acquisitions is included in intangible assets and is amortised using the straight-line method over its estimated useful life. Goodwill is amortised over a maximum period of 3 years. The gain or loss on disposal of an entity includes the unamortised balances of goodwill relating to the entity disposed of.

#### (ii) Trading rights

Trading rights held in The Stock Exchange of Hong Kong Limited and Hong Kong Futures Exchange Limited (the "Stock Exchange trading rights" and "Futures Exchange trading rights" respectively) are classified as intangible assets and are amortised using the straight-line method over a period of ten years. Trading rights are stated at cost less accumulated amortisation.

#### (iii) Membership

The membership of The Chinese Gold & Silver Exchange Society is recognised as an intangible asset on the balance sheet. It is stated at cost and amortised using the straight-line method over five years starting from 1st January 2003.

## 1. THE PRINCIPAL ACCOUNTING POLICIES (continued)

### (f) Intangible assets (continued)

#### (iv) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset, including goodwill previously written off against income statement, is assessed and written down immediately to its recoverable amount.

### (g) Investments in securities

#### (i) Non-trading securities

Investments which are held for non-trading purposes are stated at fair value at the balance sheet date. Changes in the fair value of individual securities are credited or debited to the investment revaluation reserve until the security is sold, or is determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve, is dealt with in the income statement.

Where there is objective evidence that individual investments are impaired, the cumulative loss recorded in the investment revaluation reserve is taken to the income statement.

#### (ii) Trading securities

Trading 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 income statement. Profits or losses on disposal of these investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the income statement as they arise.

#### (iii) Held-to-maturity securities

Held-to-maturity securities are stated in the balance sheet at cost plus/less any discount/premium amortised to date. The discount or premium is amortised over the period to maturity and included as interest income/expense in the income statement. Provision is made when there is a diminution in value other than temporary.

The carrying amounts of individual held-to-maturity securities or holdings of the same securities are reviewed at the balance sheet date in order to assess the credit risk and whether the carrying amounts are expected to be recovered. Provisions are made when carrying amounts are not expected to be recovered and are recognised in the income statement as an expense immediately.

# Notes to the Accounts

## 1. THE PRINCIPAL ACCOUNTING POLICIES (continued)

### (h) Provisions

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.

### (i) 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.

### (j) 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 an asset is expected to be payable or recoverable in the foreseeable future.

### (k) Translation of foreign currencies

Transactions in foreign currencies (other than foreign exchange trading contracts) 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.

The balance sheet of subsidiaries and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the income statement is translated at an average rate. Exchange differences are dealt with as movement in reserves.

### (l) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment, bank overdrafts and short-term bank loans.

# Notes to the Accounts

## 1. THE PRINCIPAL ACCOUNTING POLICIES (continued)

### (m) Trust accounts

Trust accounts maintained by the subsidiaries of the Company to hold clients' monies are no longer recognised as an asset in the accounts. Accordingly, the amounts recognised as "Bank balances and cash – segregated trust accounts" and the clients' monies deposited in two designated accounts maintained with HKFE Clearing Corporation Limited and The SEHK Options Clearing House Limited previously classified under trade and other receivables on the balance sheet, were taken off the balance sheet and netted against the corresponding amounts classified under trade and other payables. The comparative figures presented have been restated to conform with the current year's presentation.

### (n) Revenue recognition

Brokerage commission income arising from leveraged foreign exchange transactions, securities broking, precious metal contracts and commodities and futures broking are recognised and accounted for on a trade date basis.

Brokerage commission income arising from the brokerage of mutual fund (i.e. savings plan) is recognised over a period of twelve months.

For foreign currency option contracts broked on behalf of clients, premium income from foreign currency option contracts is recognised on a trade date basis when the Group writes currency option contracts, and premium expenses for foreign currency option contracts are recognised on a trade date basis when the Group purchases the corresponding option contracts. Such option contracts are only entered into with clients when corresponding contracts can be negotiated and concluded with recognised counterparties.

Net revenue from foreign exchange options trading includes both realised and unrealised gains less losses from the foreign currency option contracts. Open option contracts are carried at fair value, with related unrealised gains or losses recognised in the income statement. The open option contracts are valued using pricing models that consider, among other factors, contractual and market prices, time value and volatility factors.

All transactions related to precious metal contracts dealings are recorded in the accounts based on trade dates. Accordingly, only those transactions whose trade dates fall within the accounting year have been taken into account.

Net premium income from insurance brokerage is recognised on an accrual basis.

# Notes to the Accounts

## 1. THE PRINCIPAL ACCOUNTING POLICIES (continued)

### (n) Revenue recognition (continued)

Swap interest and foreign exchange trading revenue include both realised and unrealised gains less losses. The swap interest and foreign exchange spread in relation to open positions arising from leveraged foreign exchange transactions are recognised on an accrual basis. The net residual positions of each foreign currency resulting from broking and trading foreign currencies are carried at fair value, with related unrealised gains or losses recognised in the income statement.

Underwriting commissions are recognised when the relevant work or service has been rendered.

Revenue from corporate finance services is recognised in accordance with the terms of agreement for the underlying transactions.

Management fee and subscription fee on asset management are recognised on an accrual basis.

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.

### (o) Employee benefits

#### (i) Employee leave entitlements

Employee entitlement to annual leave is recognised when it accrues 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 or paternity leave are not recognised until the time of leave.

#### (ii) Profit sharing and bonus plan

The expected cost of profit sharing and 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 profit sharing and bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

## 1. THE PRINCIPAL ACCOUNTING POLICIES (continued)

### (o) Employee benefits (continued)

#### (iii) Pension obligations

The Group contributes to the mandatory provident fund (“MPF Scheme”), a defined contribution retirement plan in Hong Kong, which is available to all employees. The assets of the MPF Scheme are held separately from the Group in an independently administered fund.

The Group’s contribution to the MPF Scheme is based on 5% of the monthly relevant income of each employee up to a maximum monthly relevant income of HK\$20,000 in accordance with the Mandatory Provident Fund Scheme Ordinances. The retirement benefit plan cost charged to the income statement represents contributions payable by the Group to the fund.

### (p) Finance costs

Finance costs are charged to the income statement in the year in which they are incurred.

### (q) 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 income statement as foreign exchange trading revenue or net premium income from foreign currency option.

### (r) Segment reporting

In accordance with the Group’s internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, receivables and operating cash, and mainly exclude investments in associated companies and tax recoverable. Segment liabilities comprise operating liabilities and exclude items such as taxation and deferred taxation. Capital expenditure comprises additions to intangible assets and fixed assets, including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, analysis on consolidated turnover is based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.



# Notes to the Accounts

## 1. THE PRINCIPAL ACCOUNTING POLICIES *(continued)*

### (s) Contingent liabilities and contingent assets

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 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 to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

### (t) Share options

Share options are granted to directors and employees of the Group. The financial impact of share options granted by the Company is not recognised in these accounts until such time when the options are exercised and the allotments of shares is approved. Upon such approval, share capital is credited at par for each share issued, with share premium credited at the excess of net proceeds received over total share capital credited.

# Notes to the Accounts

## 2. TURNOVER, REVENUE AND SEGMENT INFORMATION

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

	2002 HK\$'000	2001 HK\$'000
Turnover		
Fees and commission	81,579	25,995
Net revenue from		
– foreign currency option trading	10,474	4,484
– bullion trading	1,012	–
Net premium income from		
– foreign currency option broking	2,968	249
– insurance brokerage	403	72
Swap interest and foreign exchange trading revenue	39,739	40,483
Interest income	7,226	10,203
Underwriting commission	655	446
Management fee and subscription fee income	795	39
	<b>144,851</b>	<b>81,971</b>
Other revenues		
Dividend income from listed securities	36	2
Other income including exchange gains	1,738	414
	<b>1,774</b>	<b>416</b>
Total revenues	<b>146,625</b>	<b>82,387</b>

# Notes to the Accounts

## 2. TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

### Primary reporting format – Business Segments

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

1. Leveraged foreign exchange trading/broking – providing leveraged forex trading services on world's major currencies
2. Securities broking – providing broking services on securities listed in Hong Kong and selected overseas markets and margin financing to those brokerage clients
3. Commodities and futures broking – providing broking services on commodities and futures contracts traded in Hong Kong and selected overseas markets
4. Corporate finance – providing corporate finance services mainly to companies listed in Hong Kong
5. Asset management – managing private funds and acting as investment manager of investment companies
6. Financial planning and insurance broking – acting as agent for sale of savings plan, unit trust, general and life insurance
7. Trading/broking on precious metal contracts – providing trading services on selected precious metal

There was no significant transaction between the business segments.

Trading on precious metals contracts was only commenced in late 2002 and hence no comparative figure for 2001 is available. For 2001, results of business segments other than leveraged foreign exchange were included from 30th November 2001 on which date the acquisition of the relevant business segments were completed.

### Secondary reporting format – Geographical Segments

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

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

There was no significant transaction between the geographical segments.

# Notes to the Accounts

## 2. TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

### Primary reporting format – Business Segments

	Leveraged foreign exchange trading/ broking 2002 HK\$'000	Securities broking 2002 HK\$'000	Commodities and futures broking 2002 HK\$'000	Corporate finance 2002 HK\$'000	Asset management 2002 HK\$'000	Financial planning/ insurance broking 2002 HK\$'000	Precious metal contracts trading/ broking 2002 HK\$'000	Unallocated 2002 HK\$'000	Total 2002 HK\$'000
Turnover	75,281	20,902	19,504	10,913	799	16,045	1,321	86	144,851
Segment results	12,230	(17,708)	1,860	(1,055)	(815)	2,037	559	(1,227)	(4,119)
Operating loss									(4,119)
Finance costs									(967)
									(5,086)
Share of loss of an associated company									(3,464)
Loss before taxation									(8,550)
Taxation payable									(1,303)
Loss attributable to shareholders									(9,853)
Segment assets	151,687	77,848	25,956	25,266	1,017	13,277	5,542	24,792	325,385
Investments in associated companies									616
Total assets									326,001
Segment liabilities	6,369	41,700	13,611	1,041	89	10,124	168	583	73,685
Total liabilities									73,685
Capital expenditure	116	938	116	15	–	7	330	383	1,905
Impairment charge									
– trading right	–	2,500	–	–	–	–	–	–	2,500
– goodwill	–	1,237	–	2,000	–	–	–	–	3,237
Depreciation	1,375	1,998	25	69	2	21	2	68	3,560
Amortisation charge	–	1,903	150	2,000	–	–	–	–	4,053
Other non-cash expenses	37	61	–	–	–	–	–	–	98

# Notes to the Accounts

## 2. TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

### Primary reporting format – Business Segments

	Leveraged foreign exchange trading/broking 2001 HK\$'000	Securities broking 2001 HK\$'000	Commodities and futures broking 2001 HK\$'000	Corporate finance 2001 HK\$'000	Asset management 2001 HK\$'000	Insurance broking 2001 HK\$'000	Unallocated 2001 HK\$'000	Total 2001 HK\$'000
Turnover	75,783	2,947	985	1,093	39	530	594	81,971
Segment results	10,220	(1,343)	(193)	(773)	(60)	46	(883)	7,014
Operating profit								7,014
Finance costs								(102)
Profit before taxation								6,912
Taxation refund								513
Profit attributable to shareholders								7,425
Segment assets	172,995	88,889	11,909	25,691	306	2,923	28,302	331,015
Investments in an associated company								3,464
Total assets								334,479
Segment liabilities	4,273	45,327	4,516	544	89	1,860	2,410	59,019
Total liabilities								59,019
Capital expenditure	2,281	15,280	1,357	5,122	9	63	50	24,162
Depreciation	1,228	156	2	6	–	2	5	1,399
Amortisation charge	–	672	13	1,000	–	–	–	1,685
Other non-cash expenses	150	–	–	–	–	–	–	150

# Notes to the Accounts

## 2. TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

### Secondary reporting format – Geographical Segments

	Turnover		Total assets		Capital expenditure	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Hong Kong	116,421	61,773	273,398	207,457	1,682	23,933
Japan	10,266	8,729	10,867	3,999	2	126
Other countries	18,164	11,469	41,120	119,559	221	103
	<b>144,851</b>	<b>81,971</b>	<b>325,385</b>	<b>331,015</b>	<b>1,905</b>	<b>24,162</b>
Investments in associated companies			616	3,464		
Total assets			<b>326,001</b>	<b>334,479</b>		

The total assets in other countries mainly represent margin and other deposits placed with overseas brokers and financial institutions.

## 3. STAFF COSTS

	2002 HK\$'000	2001 HK\$'000
Salaries and allowances	39,006	19,829
MPF Scheme contributions (Note 10)	883	516
	<b>39,889</b>	<b>20,345</b>

Staff costs include directors' emoluments as set out in Note 11.

# Notes to the Accounts

## 4. OTHER OPERATING EXPENSES

	2002 HK\$'000	2001 HK\$'000
Advertising and promotion	1,912	863
Amortisation cost of trading rights	815	68
Amortisation of goodwill	3,238	1,617
Auditors' remuneration	1,452	780
Bank charges	316	64
Communication expenses	1,776	664
Depreciation of fixed assets	3,560	1,399
Equipment rental expenses	6,290	4,105
Exchange loss	12	191
Impairment charge		
– trading right	2,500	–
– goodwill	3,237	–
Interest paid to clients	59	300
Legal and professional fee	2,222	918
Loss on disposal of fixed assets	98	150
Miscellaneous expenses	8,074	4,911
Repairs and maintenance	3,408	1,171
	<b>38,969</b>	<b>17,201</b>

## 5. FINANCE COSTS

	2002 HK\$'000	2001 HK\$'000
Interest on bank overdrafts	670	68
Interest on bank loans	297	34
	<b>967</b>	<b>102</b>

# Notes to the Accounts

## 6. TAXATION

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profit for the year.

The amount of taxation (payable)/refund charged to the consolidated income statement represents:

	2002 HK\$'000	2001 HK\$'000
Hong Kong profits tax	(1,683)	(160)
Over provisions in prior years	59	673
Deferred taxation written back	321	–
	<b>(1,303)</b>	513

At the balance sheet date, a deferred tax asset in respect of tax losses amounting to approximately HK\$6,414,000 (2001: HK\$5,173,000) has not been recognised in the accounts as it is not certain that the benefit will be realised in the foreseeable future.

## 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\$6,034,461 (2001: HK\$17,072,857).

## 8. DIVIDENDS

	2002 HK\$'000	2001 HK\$'000
Final, proposed, of HK\$Nil (2001: HK\$0.02) per ordinary share	–	8,018

On 18th April 2002, the directors proposed a final dividend of HK\$0.02 per ordinary share on 400,922,000 shares for the year ended 31st December 2001, totalling HK\$8,018,000. The amount actually paid of HK\$0.02 per ordinary share on 391,130,000 shares, totalling HK\$7,822,600 was paid on 12th June 2002. This proposed dividend is not reflected as a dividend payable in year 2001, but as an appropriation of retained earnings for the year ended 31st December 2002.



# Notes to the Accounts

## 9. (LOSSES)/EARNINGS PER SHARE

The calculation of basic (losses)/earnings per share are based on the Group's loss attributable to shareholders of HK\$9,853,188 (2001: profit attributable to shareholders of HK\$7,425,417) and the weighted average number of ordinary shares 394,932,521 (2001: 323,825,627) in issue during the year.

The diluted losses per share for the year 2002 is the same as that for basic losses per share since the potential conversion to ordinary shares from the exercise of share options would be anti-dilutive. The diluted earnings per share for the year 2001 was based on 326,888,570 ordinary shares which was the weighted average number of ordinary shares in issue during the year 2001 plus the weighted average of 3,062,943 ordinary shares deemed to be issued at exercisable prices of HK\$0.66 and HK\$0.6128 per share respectively if all outstanding options had been exercised.

## 10. DEFINED CONTRIBUTION PLANS – MPF SCHEME

The aggregate employer's contributions, net of forfeited contributions, which have been dealt with in the income statement for the year amounted to:

	2002 HK\$'000	2001 HK\$'000
Gross employer's contributions	1,090	572
Less: Forfeited contributions utilised to offset employer's contribution for the year	(207)	(56)
Net employer's contributions charged to income statement	883	516

# Notes to the Accounts

## 11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

### (a) Directors' emoluments

The aggregate amounts of emoluments payable to directors in respect of services to the Company and its subsidiaries during the year are as follows:

	2002 HK\$'000	2001 HK\$'000
Fees	380	380
Other emoluments:		
Basic salaries, other allowances, share options and benefits in kind	6,119	5,136
	<b>6,499</b>	5,516

Directors' fees disclosed above include HK\$280,000 (2001: HK\$280,000) paid to independent non-executive directors and HK\$100,000 (2001: HK\$100,000) paid to a non-executive director.

During the year 2001, options to subscribe for 2,600,000 ordinary shares of HK\$0.10 each of the Company at an exercise price of HK\$0.6128 each were granted to the directors under the Share Option Scheme adopted on 10th July 2000. The market value per share at the date of grant was HK\$0.80. Benefits in kind included 1,300,000 shares acquired and consideration paid by the directors under the Share Option Scheme during 2001. Refer to Note 21 for details of options granted and exercised during 2001.

The emoluments of the directors fell within the following bands:

Emolument bands	Number of directors	
	2002	2001
HK\$Nil – HK\$1,000,000	7	6
HK\$1,000,001 – HK\$1,500,000	2	3
HK\$1,500,001 – HK\$2,000,000	1	–

# Notes to the Accounts

## 11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

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

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 (2001: HK\$Nil).

In accordance with the service agreements signed by the directors on 10th July 2000, effective from 1st June 2000, certain directors are entitled to a management bonus with reference to and not exceeding 15% of the net profit before the calculation of such bonus. No management bonus (2001: Nil) was paid to the directors during the year.

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four directors (2001: three) whose emoluments are reflected in the analysis presented above. The emolument payable to the remaining one (2001: two) individual during the year was as follows:

	2002 HK\$'000	2001 HK\$'000
Basic salaries, other allowances, share options and benefits in kind	1,141	1,600
Bonuses	383	–
	<b>1,524</b>	<b>1,600</b>

The emoluments fell within the following bands:

Emolument bands	Number of individuals	
	2002	2001
HK\$Nil – HK\$1,000,000	–	2
HK\$1,500,001 – HK\$2,000,000	1	–

# Notes to the Accounts

## 12. INTANGIBLE ASSETS

	Group				
	Membership of The Chinese Gold & Silver Exchange Society			Goodwill	Total
	Stock Exchange trading rights HK\$'000	Futures Exchange trading right HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost					
At 1st January 2002	6,653	1,500	–	8,092	16,245
Additions	–	–	300	–	300
At 31st December 2002	6,653	1,500	300	8,092	16,545
Accumulated amortisation and impairment losses					
At 1st January 2002	998	238	–	1,617	2,853
Charge for the year					
– amortisation	665	150	–	3,238	4,053
– impairment	2,500	–	–	3,237	5,737
At 31st December 2002	4,163	388	–	8,092	12,643
Net book value					
At 31st December 2002	2,490	1,112	300	–	3,902
At 31st December 2001	5,655	1,262	–	6,475	13,392

In 2002, management considered the current market value of the Stock Exchange trading rights and established a provision against impairment loss of such trading right. The resulting loss was taken to the income statement.

Management have also considered that due to the unexpected drastic change in the market sentiment, the benefit from the acquisition of subsidiaries in year 2001 have not been fully achieved as planned and a provision against impairment loss of the goodwill has been made and the resulting loss is taken to the income statement.

# Notes to the Accounts

## 13. FIXED ASSETS

	Group				Total HK\$'000
	Leasehold improvements HK\$'000	Furniture & fixtures HK\$'000	Office & computer equipments HK\$'000	Motor vehicles HK\$'000	
Cost					
At 1st January 2002	1,648	1,692	10,454	1,224	15,018
Additions	–	178	1,427	–	1,605
Disposals	(316)	(75)	(28)	–	(419)
At 31st December 2002	1,332	1,795	11,853	1,224	16,204
Accumulated depreciation					
At 1st January 2002	659	510	2,275	331	3,775
Charge for the year	605	339	2,310	306	3,560
Disposals	(269)	(32)	(11)	–	(312)
At 31st December 2002	995	817	4,574	637	7,023
Net book value					
At 31st December 2002	337	978	7,279	587	9,181
At 31st December 2001	989	1,182	8,179	893	11,243

## Notes to the Accounts

### 13. FIXED ASSETS (continued)

	Company		Total HK\$'000
	Furniture & fixtures HK\$'000	Office & computer equipments HK\$'000	
Cost			
At 1st January 2002	–	–	–
Additions	144	60	204
At 31st December 2002	144	60	204
Accumulated depreciation			
At 1st January 2002	–	–	–
Charge for the year	2	1	3
At 31st December 2002	2	1	3
Net book value			
At 31st December 2002	142	59	201
At 31st December 2001	–	–	–

# Notes to the Accounts

## 14. OTHER ASSETS

	Group	
	2002 HK\$'000	2001 HK\$'000
Stock Exchange stamp duty deposit	75	150
Stock Exchange Fidelity Fund deposit	100	100
Stock Exchange Compensation Fund deposit	102	100
Guarantee Fund deposits with Hong Kong Securities Clearing Company Limited	120	140
Statutory deposits and deposits with Hong Kong Futures Exchange Limited ("HKFE")	1,500	1,500
Contributions in cash to the Compensation Fund of HKFE	100	100
Statutory deposits with the Securities and Futures Commission	200	200
Reserve fund deposit with The SEHK Options Clearing House Limited	1,500	–
	<b>3,697</b>	<b>2,290</b>

## 15. INVESTMENT IN SUBSIDIARIES

	Company	
	2002 HK\$'000	2001 HK\$'000
Investment at cost, unlisted shares	219,527	219,527
Amounts due from subsidiaries (Note (a))	29,707	42,578
	<b>249,234</b>	<b>262,105</b>

- (a) The amounts due from the subsidiaries were unsecured, interest free and have no fixed terms for repayment.

# Notes to the Accounts

## 15. INVESTMENT IN SUBSIDIARIES (continued)

(b) The following is a list of the subsidiaries at 31st December 2002:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Interest Held	
				Directly	Indirectly
Hantec Strategic (BVI) Holdings Limited ("HSBVIHL")	British Virgin Islands	Investment holding in Hong Kong	50,000 Ordinary shares of US\$1 each	100%	–
HT (BVI) Limited ("HTBVI")	British Virgin Islands	Investment holding in Hong Kong	7 Ordinary shares of US\$1 each	100%	–
Macro Jess Limited ("MJL")	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1 each	100%	–
Strategic Plan Limited ("SPL")	British Virgin Islands	Inactive	1 Ordinary share of US\$1 each	100%	–
Hantec International Limited ("HIL")	Hong Kong	Leveraged foreign exchange trading in Hong Kong	100 Ordinary shares of HK\$1 each, and 100,000,000 non-voting deferred shares of HK\$1 each	–	100%
HT Securities Limited ("HTS")	Hong Kong	Securities broking and margin financing services in Hong Kong	10,000,100 Ordinary shares of HK\$1 each, and 50,000,000 non-voting deferred shares of HK\$1 each	–	100%
HT Futures Limited ("HTF")	Hong Kong	Commodities and futures broking in Hong Kong	3,000,100 Ordinary shares of HK\$1 each, and 10,000,000 non-voting deferred shares of HK\$1 each	–	100%



# Notes to the Accounts

## 15. INVESTMENT IN SUBSIDIARIES (continued)

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Interest Held	
				Directly	Indirectly
Hantec Capital Limited ("HCL")	Hong Kong	Provision of corporate finance services in Hong Kong	100 Ordinary shares of HK\$1 each, and 21,000,000 non-voting deferred shares of HK\$1 each	–	100%
Hantec Asset Management Limited ("HAM")	Hong Kong	Asset management in Hong Kong	1,500,100 Ordinary shares of HK\$1 each, and 2,000,000 non-voting deferred shares of HK\$1 each	–	100%
Hantec Investment Consultant Limited ("HICL")	Hong Kong	Financial planning and insurance broking in Hong Kong	100 Ordinary shares of HK\$1 each, and 5,500,000 non-voting deferred shares of HK\$1 each	–	100%
Hantec Bullion Investments Limited ("HBIL")	Hong Kong	Trading and broking of precious metal contracts in Hong Kong	5,500,000 Ordinary shares of HK\$1 each	–	100%
Chinacorp Nominees Limited ("CNL")	Hong Kong	Holding of leases and provision of administrative support services in Hong Kong	100 Ordinary shares of HK\$1 each and 10,000 non-voting deferred shares of HK\$1 each	–	100%

# Notes to the Accounts

## 16. INTERESTS IN ASSOCIATED COMPANIES

	Group	
	2002 HK\$'000	2001 HK\$'000
Share of net assets	616	3,464
Investment at cost, unlisted shares	4,080	3,464

The following is a list of the principal associated companies at 31st December 2002:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Interest held	
				Directly	Indirectly
Fuji Hantec Forex Japan Company Limited ("FHF")	Japan	Provision of foreign exchange and futures and commodities trading services in Japan	4,400 ordinary shares of JP¥50,000 each	–	25%
Cosmos Hantec Investment (NZ) Limited ("CHI")	New Zealand	Provision of foreign exchange trading services in New Zealand	500,000 Ordinary shares of NZ\$1 each	–	30%

- (a) FHF has a financial accounting period of 31st March which is not coterminous with the Group.
- (b) CHI was incorporated in New Zealand on 6th December 2002 and remained inactive as of 31st December 2002.

# Notes to the Accounts

## 17. INVESTMENT IN SECURITIES

### (a) Trading securities

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Equity securities, at market value:				
– Listed in Hong Kong	714	82	714	82

### (b) Non-trading securities

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Equity securities, at market value:				
– Listed in Hong Kong	980	1,185	–	–

### (c) Held-to-maturity securities

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Overseas debt securities, at par:				
– Unlisted 10-year callable note maturing in 2012	15,600	–	–	–

# Notes to the Accounts

## 18. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Trade receivables from clients	23,245	23,278	–	–
Less: provision for doubtful debts	(6,679)	(7,440)	–	–
Margin finance loans (Note (c))	51,029	42,086	–	–
Less: provision for doubtful debts	(4,859)	(4,483)	–	–
Margin and other trade related deposits with brokers and financial institutions (Note (b))	52,581	72,416	8	–
Trade receivables from clearing houses	–	10,545	–	–
<b>Total trade receivables</b>	<b>115,317</b>	<b>136,402</b>	<b>8</b>	<b>–</b>
Rental and utilities deposits	4,538	6,029	105	425
Prepayments and other receivables	6,285	2,292	1,148	225
<b>Total trade and other receivables</b>	<b>126,140</b>	<b>144,723</b>	<b>1,261</b>	<b>650</b>

(a) As at 31st December 2002, the aging analysis of the trade receivables was as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Current	114,729	135,846
30-60 days	322	481
Over 60 days	11,804	11,998
	<b>126,855</b>	<b>148,325</b>
Less: provision for doubtful debts	(11,538)	(11,923)
	<b>115,317</b>	<b>136,402</b>

# Notes to the Accounts

## 18. TRADE AND OTHER RECEIVABLES (continued)

- (b) The Group undertakes foreign exchange transactions and precious metal contracts and executes client trades on overseas futures and commodity contracts with recognised counterparties, local or overseas brokers as appropriate. A recognised counterparty is a counterparty of a licensed leveraged foreign exchange trader recognised under the then Leveraged Foreign Exchange Trading Ordinance which includes an authorised institution under the Hong Kong Banking Ordinance. Trade receivables at 31st December 2002 and 2001 include margin deposits and floating profits in respect of transactions and open positions in leveraged foreign exchange, precious metal contracts and futures and commodities trading with recognised counterparties and brokers and are considered current.
- (c) The margin clients of the securities brokerage business are required to pledge their shares to the Group in order to get the credit facilities for securities trading. The amount of credit facilities granted to them is determined by the discounted value of shares acceptable by the Group after making reference to industry practice.
- (d) Credits are extended to other clients on a case-by-case basis in accordance with the financial status of clients such as their financial conditions, trading records, business profile and collateral available to the Group. Clients trading in leveraged foreign exchange contracts, commodities and futures contracts, precious metal contracts and obtaining securities margin financing from the Group are required to observe the Group's margin policy. For leveraged foreign exchange contracts, commodities and futures contracts and precious metal contracts, initial margins are normally required before trading and thereafter clients are normally required to keep the equity position at prescribed maintenance margin level.
- (e) The Group maintains designated accounts with The SEHK Options Clearing House Limited ("SEOCH") and HKFE Clearing Corporation Limited ("HKFECC") as a result of its normal business transactions. At 31st December 2002, the designated accounts with SEOCH and HKFECC not otherwise dealt with in these accounts amounted to HK\$302,806 and HK\$9,389,194 respectively. To conform with the current year's presentation, the comparative figures presented have been restated. At 31st December 2001, the designated account maintained with HKFECC not otherwise dealt with in these accounts amounted to HK\$10,135,122.

# Notes to the Accounts

## 19. BANK BALANCES AND CASH

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Cash in hand	90	248	6	–
Bank balances				
– pledged	10,591	7,578	–	–
– general accounts	154,490	146,872	18,254	15,462
	<b>165,171</b>	154,698	<b>18,260</b>	15,462
(a) By maturity:				
Bank balances				
– Current and savings account	75,968	117,221	18,254	5,203
– Fixed deposits (maturing within three months)	89,113	37,229	–	10,259
	<b>165,081</b>	154,450	<b>18,254</b>	15,462

As at 31st December 2002, deposits amounted to HK\$10,590,991 (2001: HK\$7,577,922) from two subsidiaries have been pledged to a bank for banking facilities to the extent of HK\$26 million (2001: HK\$20 million) out of the aggregate facilities of HK\$180 million (2001: HK\$200 million) granted to a subsidiary. The banking facilities were also guaranteed by the Company to the extent of HK\$168 million (2001: HK\$188 million) (Note 25). As at 31st December 2002, HK\$23,940,000 (2001: HK\$23,826,000) has been utilised by a subsidiary of the Company which engages in securities broking.

The subsidiaries of the Group maintained segregated trust accounts with authorised institutions as a result of their respective business activities. At 31st December 2002, segregated trust accounts not otherwise dealt with in these accounts amounted to HK\$84,356,877 (2001: HK\$101,772,362). To conform with the current year's presentation, the comparative figures presented have been restated.

# Notes to the Accounts

## 20. TRADE AND OTHER PAYABLES

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Trade payable to securities trading clients	8,489	17,153	–	–
Margin and other deposits payable to other clients	12,917	4,099	–	–
Trade payable to brokers and clearing houses arising from the ordinary course of business of broking in securities, futures and commodity contracts and leveraged foreign exchange trading	9,341	144	–	–
Total trade payables	30,747	21,396	–	–
Accruals and other payables	17,493	13,476	449	2,026
Total trade and other payables	48,240	34,872	449	2,026

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

Other trade payables are aged within 30 days.

# Notes to the Accounts

## 21. SHARE CAPITAL

	2002		2001	
	No. of shares '000	Nominal value HK\$'000	No. of shares '000	Nominal value HK\$'000
Authorised				
Ordinary shares of HK\$0.10 each	<b>1,000,000</b>	<b>100,000</b>	1,000,000	100,000
Issued and fully paid				
Ordinary shares of HK\$0.10 each				
At 1st January	<b>400,922</b>	<b>40,092</b>	299,000	29,900
Shares issued (Note (b) & (c))	–	–	97,122	9,712
Shares issued under Share Option Scheme (Note (d))	–	–	4,800	480
Repurchase of shares (Note (a))	<b>(9,792)</b>	<b>(979)</b>	–	–
At 31st December	<b>391,130</b>	<b>39,113</b>	400,922	40,092

- (a) During May 2002, the Company repurchased 9,792,000 ordinary shares of HK\$0.10 each on The Stock Exchange of Hong Kong Limited for a total amount of HK\$5,263,778. The repurchased shares were cancelled with the par value charged to share capital account and the balance charged to share premium account.
- (b) Pursuant to a share placement agreement dated 21st August 2001, 60,000,000 ordinary shares of the Company of HK\$0.10 each were issued at HK\$0.73 per share. These shares rank pari passu with the existing shares.
- (c) As part of the consideration for the purchase of the shareholdings in HT (BVI) Limited from HHL, 37,122,000 ordinary shares of the Company of HK\$0.10 each were issued on 30th November 2001 at a consideration of HK\$0.735 per share to HHL.



# Notes to the Accounts

## 21. SHARE CAPITAL (continued)

- (d) During the year, no option has been granted to or exercised by any eligible person or grantee respectively.

Share options are granted to employees of the Company or any subsidiary, including executive directors of the Company or any subsidiary. A consideration at HK\$1 was paid by the employees for each lot of share options granted. Share options can be exercised within five years commencing on the expiry of three months from the date of grant of the option. Movements in the number of share options outstanding during the year are as follows:

	Number of options	
	2002	2001
At the beginning of the year	16,400,000	13,500,000
Granted (Note (ii))	–	7,900,000
Exercised (Note (i) and (iii))	–	(4,800,000)
Lapsed	(1,900,000)	(200,000)
At the end of the year (Note (i))	14,500,000	16,400,000

- (i) During the year 2001, 3,400,000 ordinary shares and 1,400,000 ordinary shares of HK\$0.1 each were issued at exercise price of HK\$0.66 each and HK\$0.6128 each respectively as a result of the exercise of share options. As at 31st December 2002, options for subscription of 14,500,000 (2001: 16,400,000) ordinary shares were outstanding.
- (ii) Pursuant to the Share Option Scheme approved on 10th July 2000, options for subscription of 7,900,000 ordinary shares of the Company were granted to the directors and executives on 9th May 2001. The Company received consideration of HK\$22 in respect of the share options granted.
- (iii) Options exercised during the year 2001 resulted in 3,400,000 and 1,400,000 shares being issued at HK\$0.66 and HK\$0.6128 each respectively, the Company received proceeds of HK\$3,101,920.

# Notes to the Accounts

## 21. SHARE CAPITAL (continued)

	HK\$'000
Ordinary share capital – at par	480
Share premium	2,622
<hr/>	
Proceeds	3,102
<hr/>	

	HK\$'000
Fair value of shares issued at exercise date of:	
– 1st February 2006	6,750
– 8th August 2006	3,713
<hr/>	

Share options outstanding at the end of the year have the following terms:

Expiry Date	Exercise price	Number of options		Vested percentages	
		2002	2001	2002	2001
Directors					
– 1st February 2006	0.6600	1,700,000	1,700,000	100%	100%
– 8th August 2006	0.6128	2,600,000	2,600,000	100%	100%
		4,300,000	4,300,000		
<hr/>					
Other employees					
– 1st February 2006	0.6600	6,300,000	8,200,000	100%	100%
– 8th August 2006	0.6128	3,900,000	3,900,000	100%	100%
		10,200,000	12,100,000		
<hr/>					
		14,500,000	16,400,000		
<hr/>					

During the year, an option covering 1,900,000 (2001: 200,000) ordinary shares at HK\$0.1 each exercisable at HK\$0.66 lapsed as a result of resignation of one grantee.

# Notes to the Accounts

## 22. RESERVES

	Group				
	Share premium	Capital reserves	Investment revaluation reserves	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January 2001, as previously reported	31,080	100,189	–	33,678	164,947
Prior year adjustment for 2000 dividend proposed not declared prior to year end	–	–	–	7,475	7,475
At 1st January 2001, as restated	31,080	100,189	–	41,153	172,422
Surplus on revaluation of investment securities held for non-trading purpose	–	–	65	–	65
Share options exercised	2,622	–	–	–	2,622
Issuance of new shares at premium	61,372	–	–	–	61,372
Net expenses on the issuance of ordinary shares	(1,005)	–	–	–	(1,005)
Profit for the year	–	–	–	7,425	7,425
Dividend	–	–	–	(7,533)	(7,533)
At 31st December 2001 and 1st January 2002	94,069	100,189	65	41,045	235,368
Repurchase of shares	(4,284)	–	–	–	(4,284)
Deficit on revaluation of investments in securities held for non-trading purposes	–	–	(205)	–	(205)
Loss for the year	–	–	–	(9,853)	(9,853)
Dividend	–	–	–	(7,823)	(7,823)
At 31st December 2002	89,785	100,189	(140)	23,369	213,203
At 31st December 2002					
Companies and subsidiaries	89,785	100,189	(140)	26,833	216,667
Associated companies	–	–	–	(3,464)	(3,464)
	89,785	100,189	(140)	23,369	213,203
At 31st December 2001					
Companies and subsidiaries	94,069	100,189	65	41,045	235,368
Associated company	–	–	–	–	–
	94,069	100,189	65	41,045	235,368

## Notes to the Accounts

### 22. RESERVES (continued)

	Company			Total HK\$'000
	Share premium HK\$'000	Retained earnings HK\$'000	Contributed surplus HK\$'000	
At 1st January 2001, as previously reported	31,080	7,996	133,101	172,177
Prior year adjustment for 2000 dividend receivable not declared prior to year end	–	(16,000)	–	(16,000)
Prior year adjustment for 2000 dividend proposed not declared prior to year end	–	7,475	–	7,475
At 1st January 2001, as restated	31,080	(529)	133,101	163,652
Premium on share options exercised	2,622	–	–	2,622
Premium on issuance of new shares	61,372	–	–	61,372
Net expenses on the issuance of ordinary shares	(1,005)	–	–	(1,005)
Profit for the year	–	17,073	–	17,073
Dividend	–	(7,533)	–	(7,533)
At 31st December 2001 and 1st January 2002	94,069	9,011	133,101	236,181
Repurchase of shares	(4,284)	–	–	(4,284)
Profit for the year	–	6,034	–	6,034
Dividend	–	(7,823)	–	(7,823)
At 31st December 2002	89,785	7,222	133,101	230,108

# Notes to the Accounts

## 22. RESERVES (continued)

### (a) Retained earnings are represented as follows:

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Representing:				
Retained profit at 31st December	23,369	33,027	7,222	993
Final dividend proposed	–	8,018	–	8,018
At 31st December	23,369	41,045	7,222	9,011

### (b) 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 in 2000.

### (c) Contributed surplus

Contributed surplus arose as a result of the Group's reorganisation in 2000 and represents the difference between the aggregate net asset value of subsidiaries acquired and the nominal amount of the Company's shares issued for the acquisition.

### (d) Investment revaluation reserve

The investment revaluation reserve of the Group represents the changes in the fair value of non-trading securities.

### (e) Distributable reserves

Under the Company Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of the contributed surplus account if:

- (i) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

# Notes to the Accounts

## 23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Reconciliation of operating (loss)/profit to net cash inflow from operations

	2002 HK\$'000	Restated 2001 HK\$'000
(Loss)/profit before taxation	(5,086)	6,912
Depreciation of fixed assets	3,560	1,399
Amortisation cost of trading rights	815	68
Amortisation of goodwill	3,238	1,617
Impairment charge		
– trading right	2,500	–
– goodwill	3,237	–
Interest paid	967	102
Dividend income from listed securities	(36)	(2)
Loss on disposal of fixed assets	98	150
Realised loss on listed securities	7	–
Unrealised loss on investments in trading securities	56	27
Written back of provision for doubtful debt	(385)	(155)
Bad debts written off	341	–
Operating profit before working capital changes	9,312	10,118
(Increase)/decrease in other assets	(1,407)	140
Increase in trading securities	(695)	–
Decrease in trade and other receivables	18,627	59,282
Increase/(decrease) in trade and other payables	13,368	(19,060)
Cash generated from operations	39,205	50,480
Hong Kong profits tax paid	(65)	(5,052)
Taxation refund	3,348	3,573
Net cash inflow generated from operations	42,488	49,001

# Notes to the Accounts

## 23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

### (b) Analysis of changes in financing during the year

	Share capital including share premium	
	2002 HK\$'000	2001 HK\$'000
As at 1st January	134,161	60,980
Issuance of new shares net of expenses	–	45,896
Share issued for non-cash consideration	–	27,285
Repurchase of shares	(5,263)	–
As at 31st December	128,898	134,161

### (c) Major non-cash transaction

Part of the consideration for the purchase of subsidiaries during the year 2001 comprised of 37,122,000 ordinary shares of HK\$0.10 each in the Company issued at HK\$0.735 each.

# Notes to the Accounts

## 23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

### (d) Purchase of subsidiaries:

	2002 HK\$'000	2001 HK\$'000
Net assets acquired		
Fixed assets	–	6,803
Intangible assets	–	6,985
Other assets	–	2,430
Investment in securities	–	1,121
Taxation recoverable	–	235
Trade and other receivables	–	89,291
Bank balances and cash – general accounts	–	35,217
– segregated trust accounts	–	40,399
Trade and other payables	–	(88,056)
Bank overdrafts	–	(8,948)
Bank loans	–	(10,000)
Deferred taxation	–	(321)
	–	75,156
Goodwill	–	8,092
	–	83,248
Satisfied by:		
Allotment of shares	–	27,285
Cash	–	54,497
	–	81,782
Financial advisory fees paid in cash	–	1,466
	–	83,248

On 30th November 2001, the Group completed an acquisition of 100% shareholdings in HT (BVI) Limited from Hantec Holdings Limited (“HHL”), its ultimate holding company at a consideration of HK\$81.78 million. The purchase consideration was satisfied by cash of HK\$54.5 million and allotment of 37,122,000 ordinary shares of the Company at a consideration of HK\$0.735 each. HT (BVI) Limited held 100% issued share capital of the six companies acquired, namely HTS, HTF, HCL, HAM, HICL and CNL.



# Notes to the Accounts

## 23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

### (d) Purchase of subsidiaries: (continued)

The acquired business contributed revenues of HK\$5,769,866 and operating loss of HK\$733,486 to the Group for the period from 1st December 2001 to 31st December 2001, and its total assets and liabilities at 31st December 2001 were HK\$182,600,105 and HK\$112,599,727 respectively.

The subsidiaries acquired during 2001 contributed HK\$16,269,000 to the Group's net operating cash flows, paid HK\$86,000 in respect of taxation and utilised HK\$25,906,000 for investing activities.

### (e) Analysis of the net cash outflow in respect of the purchase of subsidiaries:

	2002 HK\$'000	2001 HK\$'000
Cash consideration	–	54,497
Cash paid for financial advisory fee in relation to purchase of subsidiaries	–	1,466
Bank balances and cash in hand acquired	–	(35,217)
Bank overdrafts	–	8,948
Bank loan	–	10,000
<b>Net cash outflow in respect of the purchase of subsidiaries</b>	<b>–</b>	<b>39,694</b>

## 24. DEFERRED TAXATION

The movement on deferred tax liabilities' account is as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
At 1st January	321	–
Addition through acquisition of subsidiaries	–	321
Write back	(321)	–
<b>At 31st December</b>	<b>–</b>	<b>321</b>

The deferred taxation was provided in respect of accelerated depreciation allowances.

# Notes to the Accounts

## 25. CONTINGENT LIABILITIES

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

The directors have commenced a defence action and will continue to defend it. Potential damages, losses, fees, expenses, proceedings and claims which have been and may be incurred by the Group as a result of the action have been covered by a joint and several indemnity, given by the ultimate controlling shareholders and accordingly no provision has been made by the Group as at 31st December 2002 and 2001.

- (b) As at 31st December 2002, the Company had issued corporate guarantees to certain banks for credit facilities up to an amount of HK\$168,000,000 (2001: HK\$188,000,000) granted to a subsidiary which engages in securities broking. In addition, the Company had issued corporate guarantees to certain financial institutions for foreign exchange trading and precious metals contracts trading facilities granted to subsidiaries which engage in leveraged foreign exchange trading and precious metals trading. The guarantee amounts vary and are subject to the volume of contracts traded with the financial institutions.

## 26. LEASE COMMITMENTS

At 31st December 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Land and buildings		
Not later than one year	8,575	9,212
Later than one year and not later than five years	3,881	10,510
	<hr/>	<hr/>
	12,456	19,722
	<hr/>	<hr/>

# Notes to the Accounts

## 27. ASSETS, LIABILITIES AND COMMITMENTS IN FOREIGN CURRENCIES

	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Total assets in foreign currencies included in the balance sheet	<b>166,468</b>	169,872
Total liabilities in foreign currencies included in the balance sheet	<b>8,547</b>	2,660
Total commitments to purchase foreign currencies under leveraged foreign exchange trading contracts	<b>2,129,010</b>	691,980
Total commitments to sell foreign currencies under leveraged foreign exchange trading contracts	<b>1,943,170</b>	689,540
Total commitments to purchase foreign currencies under option contracts	<b>924,707</b>	1,082,865
Total commitments to sell foreign currencies under option contracts	<b>923,336</b>	1,077,846

Note:

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

## 28. RELATED PARTY TRANSACTIONS

The following is a summary of significant related party transactions which were carried out in the normal course of the Group's business:

	2002 HK\$'000	2001 HK\$'000
Financial advisory fee paid to a subsidiary (Note (a))	–	(350)
Office premises occupancy expenses (Note (b))	–	(1,709)
Swap interest and foreign exchange trading revenue (Note (c))	19,831	–
Commission income received (Note (c))	167	–
Management fee income (Note (d))	183	–

- (a) During the year 2001 and up to 30th November 2001, the Group paid financial advisory service fee of HK\$350,000, charged on a commercial basis, to HCL for the financial advisory service provided in the normal course of business. HCL was previously a member of the HHL Group and became a subsidiary of the Group with effect from 30th November 2001. Since 1st December 2001, HCL's results have been included in the Group's consolidated income statement.
- (b) During the year 2001 and up to 30th November 2001, a total of HK\$1,709,097 was paid to the Chinacorp Nominees Limited ("CNL") 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. The directors consider that the terms of the Licence Services Agreement and the rental charged are at normal commercial terms. CNL was previously a member of the HHL Group signing the Licence Services Agreement and, became a subsidiary of the Group with effect from 30th November 2001. Since 1st December 2001, CNL's results have been included in the Group's consolidated income statement.

# Notes to the Accounts

## 28. RELATED PARTY TRANSACTIONS (continued)

- (c) During the year, the associated company in Japan transacted leveraged foreign exchange trading, futures trading and purchased listed securities through the Group. Commission was charged on all transactions at normal commercial terms. For leveraged foreign exchange transactions, spreads are based on relevant market rates at the time of each transaction and at the same terms as available to other customers and counterparties of the Group. The commission of HK\$166,699 (2001: Nil) and swap interest and trading revenue of HK\$19,830,654 (2001: Nil) were resulted from the normal business transactions with the Group.
- (d) During the year, the management fee totalling of HK\$182,788 (2001: Nil) was received from an investment company in which the Chairman of the Group is also an executive director of the investment company. Management fee was charged at normal commercial terms.
- (e) On 17th December 2002, a wholly owned subsidiary of the Group, Hantec Bullion Investments Limited entered into a sale and purchase agreement with Hantec Bullion and Futures Limited, a subsidiary of HHL to acquire a membership in The Chinese Gold & Silver Exchange Society for a consideration of HK\$300,000 in cash. The consideration represented a 14% discount to the estimated market value of HK\$350,000 valued by independent valuer appointed by the Group. In addition, on the same date the Company entered into another sale and purchase agreement with HHL to acquire some office equipment in Taiwan for the use in the Company's representative office in Taiwan for a consideration of HK\$200,000 in cash. Both acquisitions were completed on 31st December 2002.

## 29. ULTIMATE HOLDING COMPANY

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

## 30. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 15th April 2003.