

1. 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, non-trading investments and derivative financial instruments are stated at fair value.

2. Principal Accounting Policies

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

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 15 (revised)	:	Cash flow statements
SSAP 34 (revised)	:	Employee benefits

The Group has also adopted SSAP 12 (revised) Income Taxes, which is effective for accounting periods commencing on or after 1st January 2003, in advance of its effective date.

The accounting policies set out below have taken into accounts the new SSAPs.

(a) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 30th June.

All significant inter-company 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) Subsidiaries

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.

2. Principal Accounting Policies (Continued)**(c) Intangible assets**

The subsidiaries of the Company hold two trading rights on the SEHK and two trading rights on the Hong Kong Futures Exchange (the "HKFE"). The trading rights are recognised as intangible assets on the balance sheet. One trading right on the SEHK was purchased during the year and it is recorded at the purchase cost and amortised using the straight-line method over its estimated useful life of ten years. Other three trading rights are recorded at zero book value. Where an indication of impairment exists, the carrying amount of the intangible asset is assessed and written down to its recoverable amount.

(d) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation of leasehold improvements is calculated to write off their cost less accumulated impairment losses over the unexpired periods of the leases or their expected useful lives to the Group whichever is shorter.

Other tangible fixed assets 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 follow:

Furniture and fixtures	20%
Office equipment	20%
Computer equipment	33 ¹ / ₃ %

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.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that the 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 profit and loss account.

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 profit and loss account.

(e) Other assets

Other assets held in a long term basis are stated at cost less accumulated impairment losses deemed necessary by the directors.

2. Principal Accounting Policies *(Continued)*

(f) **Non-trading investments**

Investments which are held for non-trading purpose 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 profit and loss account.

When there is objective evidence that individual investments are impaired the cumulative loss recorded in the revaluation reserve is taken to the profit and loss account.

(g) **Provision for bad and doubtful debts**

Provision is made against accounts receivable, loans and advances to the extent they are considered to be doubtful. Accounts receivable, loans and advances in the balance sheet are stated net of such provision.

(h) **Trust accounts**

Trust accounts maintained by the subsidiaries of the Company to hold clients' monies are treated as the off-balance sheet items and disclosed in a note to the accounts.

(i) **Cash and cash equivalents**

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, balances with banks with original maturities less than three months and bank overdrafts.

(j) **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.

(k) **Revenue recognition**

All commission income related to securities and futures trading 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.

Commission income from unit trusts sales is recognised on an accrual basis.

Commission income from insurance linked products is recognised when services are rendered.

Corporate finance advisory fees are recognised on the basis of the stage of completion of each individual project.

2. Principal Accounting Policies *(Continued)*

(k) Revenue recognition *(Continued)*

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

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

Placement fees, consultancy fees, underwriting and sub-underwriting commissions are recognised when services are rendered.

(l) 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 as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, accounts receivable and operating cash. Segment liabilities comprise accounts payable and operating liabilities. Capital expenditure comprises additions to intangible assets and fixed assets.

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

(m) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. An accrual is made for the estimated liability for annual leave and long service 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 recognised when the absences occur.

(ii) Profit sharing and bonus plans

The expected cost of profit sharing and bonus payments are recognised as a liability when the Company 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 twelve months and are measured at the amounts expected to be paid when they are settled.

2. Principal Accounting Policies *(Continued)*

(m) Employee benefits *(Continued)*

(iii) Retirement benefits schemes

The Group offers a defined contribution retirement scheme and a mandatory provident fund scheme, the assets of which are generally held in separate trustee-administered funds. These defined contributions plans are generally funded by payments from employees and by the Group.

The Group's contributions to the defined contribution retirement scheme and the mandatory provident fund scheme are expensed as incurred.

(iv) Share options scheme

Share options of the Company are granted to certain directors, employees and bona fide consultants of the Group under the share option scheme. Equity compensation benefits resulting from the issue of share options to the Group's directors, employees and bona fide consultants at less than the fair value at which those instruments would be issued to a third party are not recognised in the Group's account.

(n) Borrowing costs

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

(o) Income tax

Income tax for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arise from depreciation on fixed assets. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences or the unused tax losses can be utilised.

2. Principal Accounting Policies *(Continued)*

(o) **Income tax** *(Continued)*

In prior year, deferred taxation was 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 was expected to be payable or recoverable in the foreseeable future. The adoption of the new SSAPI2 (revised) represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in note 25 to the accounts, opening retained earnings at 1st July 2002 and 2001 have been reduced by HK\$175,000 and HK\$169,000 respectively which represent the unprovided net deferred tax liabilities. This change has resulted in an increase in deferred tax assets and deferred tax liabilities at 30th June 2003 by HK\$1,162,000 and HK\$3,000 respectively. The profit for the year ended 30th June 2003 has been increased by HK\$1,334,000.

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

(p) **Translation of foreign currencies**

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. All exchange differences arising are dealt with in the profit and loss account.

(q) **Operating leases**

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

(r) **Off-balance sheet financial instruments**

Off-balance sheet financial instruments include listed equity index futures contracts, listed currency futures contracts and foreign exchange deferred trading undertaken by the Group in the equity and foreign exchange markets. These instruments are recorded on the Group's balance sheet on a trade date basis. The accounting for these instruments is dependent upon whether the transactions are undertaken for dealing purposes or to hedge risk.

2. Principal Accounting Policies *(Continued)*

(r) Off-balance sheet financial instruments *(Continued)*

Listed equity index futures contracts and listed currency futures contracts undertaken for trading purposes are marked to market. Fair values are obtained periodically from quoted market prices. The gains and losses arising from trading in listed equity index futures contracts and listed currency futures contracts are recognised in the profit and loss account as profit/ (loss) on proprietary trading in futures contracts.

Foreign exchange deferred trading designated as hedges are valued on an equivalent basis to the assets, liabilities or net positions which they are hedging. Any profit or loss is recognised in the same period as that arising from the related assets, liabilities or positions.

The Group's criteria for an off-balance sheet financial instrument to be classified as a hedge include:

- (i) the transaction must be reasonably expected to match or eliminate a significant portion of the risk inherent in the position being hedged; and
- (ii) there is adequate documentary evidence of the intent to hedge at the outset of the transaction.

(s) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

3. Turnover, Revenue and Segment Information

The Group is principally engaged in broking index, commodity and currency futures contracts and securities for its clients mainly on the following exchanges:

- TGE;
- TOCOM;
- the HKFE;
- the SEHK; and
- other overseas exchanges (such as Chicago Mercantile Exchange and New York Board of Trade etc).

The Group transacted commodity and currency futures contracts through external exchange participants of TGE, TOCOM or other overseas exchanges on behalf of clients.

3. Turnover, Revenue and Segment Information (Continued)

The Group also provides other related financial services including margin financing, securities underwriting, financial advisory services, corporate finance services, agency services for unit trusts and insurance-linked products, and money lending. The Group also trades listed index futures contracts on the HKFE and currency futures contracts on overseas exchanges on its own account.

The breakdown of the turnover and revenue line is as follows:

	2003	2002
	HK\$'000	HK\$'000
TURNOVER		
Brokerage commission:		
— commodity futures contracts on TGE and TOCOM	88,547	142,025
— commodity and currency futures contracts on other overseas exchanges	29,335	2,756
— index futures contracts on the HKFE	540	2,032
— securities dealing	3,587	3,917
Advisory and asset management fees		
— corporate finance and advisory	145	844
— commission on sale of unit trust and insurance-linked products	4,878	1,952
Interest income:		
— securities margin financing	2,126	1,502
— loans and advances	62	99
— deposits with clearing houses and brokers	1	2,332
— bank deposits and others	1,273	1,147
Proprietary trading in futures contracts		
— on the HKFE	102	2,689
— on overseas exchanges	(3,907)	—
	126,689	161,295
OTHER REVENUES		
Dividend income	900	431
Exchange gains	386	1,441
Management fee income	960	400
Other income	164	256
	2,410	2,528
Total turnover and revenues	129,099	163,823

3. Turnover, Revenue and Segment Information *(Continued)***Business segments**

For management purposes, the Group is currently divided into seven operating divisions, namely, futures broking, securities broking, securities margin financing, corporate finance, asset management services, money lending and proprietary trading. These divisions are the basis on which the Group reports its primary segmental information. The principal activities of these divisions are as follows:

Futures broking	—	provision of agency and broking services in trading of Japanese commodity futures contracts, US commodity and currency futures contracts and Hong Kong index futures contracts
Securities broking	—	provision of securities broking services
Securities margin financing	—	provision of securities margin financing services
Corporate finance	—	provision of corporate finance services
Asset management services	—	distribution of unit trusts, mutual funds, insurance-linked products and provision of personal financial consulting and planning services
Money lending	—	provision of personal financing services
Proprietary trading	—	proprietary trading in index futures contracts on the HKFE and currency futures contracts on overseas exchanges

3. Turnover, Revenue and Segment Information (Continued)**Business segments** (Continued)

Segment information about the business is presented below:

	2003								Consolidated HK\$'000
	Futures broking HK\$'000	Securities broking HK\$'000	Securities margin financing HK\$'000	Corporate finance HK\$'000	Asset management services HK\$'000	Money lending HK\$'000	Proprietary trading HK\$'000	Other operations HK\$'000	
TURNOVER	119,299	3,708	2,198	212	4,880	63	(3,805)	134	126,689
RESULT	25,230	(2,266)	(1,158)	(2,785)	(2,195)	(60)	(4,207)	334	12,893
Finance cost									(398)
Taxation									(2,271)
Profit attributable to shareholders									10,224
ASSETS									
Segment assets	106,645	18,210	25,622	8,044	5,139	1,958	2,947	11,172	179,737
LIABILITIES									
Segment liabilities	65,446	4,760	613	74	2,388	35	—	—	73,316
Capital expenditure	89	895	174	5	46	—	—	—	1,209
Depreciation	999	303	180	7	54	—	—	—	1,543
Amortisation	—	10	—	—	—	—	—	—	10

3. Turnover, Revenue and Segment Information *(Continued)*

Business segments *(Continued)*

	2002								Consolidated HK\$'000
	Futures broking HK\$'000	Securities broking HK\$'000	Securities margin financing HK\$'000	Corporate finance HK\$'000	Asset management services HK\$'000	Money lending HK\$'000	Proprietary trading HK\$'000	Other operations HK\$'000	
TURNOVER	149,578	4,135	1,586	844	1,957	304	2,689	202	161,295
RESULT	48,014	(5,283)	(1,945)	(2,287)	(2,641)	181	2,662	196	38,897
Finance cost									(690)
Taxation									(7,888)
Profit attributable to shareholders									30,319
ASSETS									
Segment assets	148,038	16,561	21,366	17	1,114	1,023	2,007	30,716	220,842
LIABILITIES									
Segment liabilities	104,919	3,331	2,022	1	371	40	—	5	110,689
Capital expenditure	3,281	103	39	8	36	—	—	—	3,467
Depreciation	637	646	248	11	43	—	—	—	1,585

Geographical segments

No geographical reporting is provided as less than 10% of the consolidated turnover and consolidated trading results of the Group are derived from markets outside Hong Kong and all assets of the Group are originated from business decisions and operations based in Hong Kong.

4. Staff Costs

	2003 HK\$'000	2002 HK\$'000
Salaries, commissions and allowances	62,783	74,132
Contributions to retirement benefits schemes <i>(Note 12)</i>	1,257	1,360
Rental expenses on staff quarter <i>(Note 28(b))</i>	3,870	—
Staff costs recharged by a related company <i>(Note 28(f))</i>	—	4,983
Others	304	92
Staff costs include directors' emoluments <i>(Note 11)</i>	68,214	80,567

5. Other Operating Expenses

	2003	2002
	HK\$'000	HK\$'000
Advertising and market development	1,802	2,342
Amortisation of intangible assets	10	—
Auditors' remuneration	1,017	990
Building management fees	1,456	1,155
Depreciation of owned fixed assets	1,543	1,585
Depreciation charges paid to a related company (Note 28(c))	2,148	1,852
Legal and professional fees	1,412	734
Loss on disposal of fixed assets	691	—
Mis-trade expenses	129	49
Recruitment	902	1,097
Repairs and maintenance	817	745
Telecommunication costs	2,808	3,227
Trading fees	134	97
Other administrative and miscellaneous expenses	6,647	7,328
	21,516	21,201

6. Finance Costs

	2003	2002
	HK\$'000	HK\$'000
Interest on bank overdrafts wholly repayable within five years	398	690

7. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit for the year.

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

	2003	2002
	HK\$'000	HK\$'000
Current taxation:		
Hong Kong profits tax	3,605	7,882
Deferred taxation relating to the origination and reversal of temporary differences (Note 26)	(1,350)	6
Deferred taxation resulting from an increase in tax rate (Note 26)	16	—
Taxation charge	2,271	7,888

7. Taxation *(Continued)*

	2003	2002
	HK\$'000	HK\$'000
Profit before taxation	12,495	38,207
Calculated at a taxation rate of 17.5% (2002: 16%)	2,187	6,113
Income not subject to taxation	(352)	(79)
Expenses not deductible for taxation purposes	5	—
Tax losses unrecognised	1,683	1,854
Unused tax losses recognised	(1,268)	—
Increase in opening net deferred tax liabilities resulting from an increase in tax rate	16	—
Taxation charge	2,271	7,888

8. Profit Attributable to Shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$22,334,000 (2002: HK\$6,196,000).

9. Dividends

	2003	2002
	HK\$'000	HK\$'000
Interim declared and paid: HK1 cent per ordinary share (2002: HK3 cents)	2,000	6,000
Dividends paid by a subsidiary of the Company to the then shareholder prior to reorganisation	—	10,000
Final proposed: HK1 cent per ordinary share (2002: HK4.5cents) <i>(Note a)</i>	2,000	9,000
	4,000	25,000

Note (a): A final dividend of HK1 cent (2002: HK4.5 cents) per ordinary share has been proposed by the directors and is subject to the approval by the shareholders at the forthcoming annual general meeting.

This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 30th June 2004.

10. Earnings Per Share

The calculation of the basic earnings per share is based on the Group's profit attributable to shareholders of approximately HK\$10,224,000 (2002: HK\$30,319,000) divided by the weighted average number of 200,000,000 shares (2002: 170,821,918 shares) in issue during the year.

In determining the weighted average number of shares in issue used to calculate the basic earnings per share for the year ended 30th June 2002, the 1,779,900 shares issued before the capitalisation issue and the capitalisation issue of 148,220,100 shares as described in the Prospectus were deemed to have been in issue throughout the accounting periods presented.

Diluted earnings per share for the years ended 30th June 2003 and 2002 were not disclosed as there were no dilutive potential ordinary shares.

11. Directors' and Employees' Emoluments**Directors' emoluments of the Company**

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

	2003	2002
	HK\$'000	HK\$'000
Fees:		
Executive directors	—	—
Non-executive directors	360	—
	360	—
Other emoluments (executive directors):		
Salaries, bonus and other benefits	8,758	9,287
Housing benefits	3,870	—
Contributions to retirement benefits schemes	114	156
	12,742	9,443
	13,102	9,443

In addition to the directors' emoluments disclosed above, certain directors were granted share options under the Company's share option scheme. The details are set out in "Share Option Scheme" in the Directors' Report and note 24 to the accounts.

11. Directors' and Employees' Emoluments (Continued)**Directors' emoluments of the Company** (Continued)

The emoluments of the directors fell within the following bands:

	2003	2002
	Number of directors	Number of directors
Nil to HK\$1,000,000	2	2
HK\$1,500,001 to HK\$2,000,000	1	—
HK\$2,000,001 to HK\$2,500,000	1	1
HK\$2,500,001 to HK\$3,000,000	1	1
HK\$4,500,001 to HK\$5,000,000	—	1
HK\$6,000,001 to HK\$6,500,000	1	—

Employees' emoluments

The five individuals whose emoluments were the highest in the Group for the year include three directors (2002: three directors) whose emoluments are reflected in the analysis presentable above. The emoluments payable to the remaining two (2002: two) individuals during the year were as follow:

	2003	2002
	HK\$'000	HK\$'000
Salaries, bonus and other benefits	4,251	4,718
Contributions to retirement benefits scheme	21	123
	4,272	4,841

The emoluments fell within the following bands:

	2003	2002
	Number of individuals	Number of individuals
Nil to HK\$1,000,000	—	—
HK\$2,000,001 to HK\$2,500,000	2	1
HK\$2,500,001 to HK\$3,000,000	—	1

12. Retirement Benefits Schemes

The Group operates a defined contribution retirement scheme (the "ORSO Scheme") and a mandatory provident fund scheme (the "MPF Scheme") which comply with all the respective requirements under the Occupational Retirement Schemes Ordinance and Mandatory Provident Fund Ordinance.

Contributions to the ORSO Scheme are based on percentage ranging from five to nine per cent of the basic salary of the employees depending upon the length of employment.

12. Retirement Benefits Schemes (Continued)

The employees under ORSO Scheme are entitled to 100 per cent of the employer's contributions after 10 years of completed services, or at a reduced scale after completion of three to nine years' services. Forfeited contributions by the qualified employees who left the scheme prior to vesting fully in such contributions are used to reduce the Group's contributions.

Contributions to the MPF Scheme are calculated at five per cent of the relevant income of each employee up to a maximum amount of \$1,000 per month. All statutory contributions under the MPF Scheme are immediately fully vested on the employees.

The aggregate employer's contributions, net of forfeited contributions, which have been dealt with in the profit and loss account for the year amounted to:

	2003 HK\$'000	2002 HK\$'000
Gross employer's contributions	1,614	1,664
Less: Forfeited contributions utilised to offset employer's contributions for the year	(357)	(304)
Net employer's contributions charged to profit and loss account	1,257	1,360

13. Intangible Assets

	Group HK\$'000
COST	
At 1st July 2002	—
Additions	600
At 30th June 2003	600
ACCUMULATED AMORTISATION	
At 1st July 2002	—
Charge for the year	10
At 30th June 2003	10
NET BOOK VALUE	
At 30th June 2003	590

14. Fixed Assets

	Group				
	Leasehold improvements <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Office equipment <i>HK\$'000</i>	Computer equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
COST					
At 1st July 2002	2,878	511	1,269	2,035	6,693
Additions	—	7	4	598	609
Disposals	(1,058)	(34)	(57)	(86)	(1,235)
At 30th June 2003	1,820	484	1,216	2,547	6,067
ACCUMULATED DEPRECIATION					
At 1st July 2002	949	164	334	983	2,430
Charge for the year	570	90	239	644	1,543
Disposals	(433)	(10)	(52)	(48)	(543)
At 30th June 2003	1,086	244	521	1,579	3,430
NET BOOK VALUE					
At 30th June 2003	734	240	695	968	2,637
At 30th June 2002	1,929	347	935	1,052	4,263

15. Other Assets

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Deposits with the Compensation Fund of the HKFE	100	100
Reserve fund deposits with the Hong Kong Futures Exchange Clearing Corporation Limited ("HKFCEE")	1,500	1,500
Statutory deposits with the SEHK	200	100
Statutory deposits with the Securities and Futures Commission	100	50
Contributions to the Central Clearing and Settlement System Guarantee Fund	100	50
Admission fees paid to the Hong Kong Securities Clearing Company Limited	100	50
	2,100	1,850

16. Non-Trading Investments

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Listed equities in Hong Kong at fair value	23,176	16,782	8,549	—

A subsidiary of the Company has pledged listed investments of aggregate carrying amount of HK\$14,571,000 (2002: HK\$10,280,000) to a bank for the banking facilities.

17. Investments in Subsidiaries

	Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	65,237	65,237
Amounts due from subsidiaries	38,000	11,000
Amounts due to subsidiaries	—	(4,557)
	103,237	71,680

The following is a list of the subsidiaries as at 30th June 2003. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation/ place of operation	Principal activities	Issued and fully paid share capital	Percentage of equity interest attributable to the Group	
				Direct	Indirect
Tanrich Financial (Management) Limited ("TFML")	British Virgin Islands/ Hong Kong	Investment holding	US\$10,000	100%	—
Tanrich Futures Limited ("TFL")	Hong Kong/ Hong Kong	Futures broking	\$30,000,000 (divided into 20,000,000 ordinary shares and 10,000,000 non-voting deferred shares of \$1 each)	—	100%

17. Investments in Subsidiaries *(Continued)*

Name of company	Place of incorporation/ place of operation	Principal activities	Issued and fully paid share capital	Percentage of equity interest attributable to the Group	
				Direct	Indirect
Tanrich Securities Company Limited ("TSCL")	Hong Kong/ Hong Kong	Securities broking, securities margin financing, underwriting and investment advisory services	\$40,001,000 (divided into 15,001,000 ordinary shares and 25,000,000 non-voting deferred shares of \$1 each)	—	100%
Tanrich Asset Management Limited ("TAML")	Hong Kong/ Hong Kong	Distribution of unit trusts, mutual funds, insurance-linked products and provision of personal financial consulting and planning services	\$11,001,000 (divided into 5,001,000 ordinary shares and 6,000,000 non-voting deferred shares of \$1 each)	—	100%
Tanrich Finance Limited ("TFIN")	Hong Kong/ Hong Kong	Provision of personal financing services	\$11,000 (divided into 1,000 ordinary shares and 10,000 non-voting deferred shares of \$1 each)	—	100%
Tanrich Capital Limited ("TCL")	Hong Kong/ Hong Kong	Provision of corporate finance advisory services	\$10,000,000	—	100%

In accordance with Articles of Association of each of TFL, TSCL, TAML and TFIN, holders of non-voting deferred shares are entitled to a fixed non-cumulative dividend at a rate of Hong Kong one cent (\$0.01) per non-voting deferred share when the profit exceeds \$100,000 million in any financial year.

18. Loans and Advances

	Group	
	2003	2002
	HK\$'000	HK\$'000
Loans and advances — unsecured	131	244
— secured	556	420
	687	664
Current portion of loans and advances	(341)	(384)
	346	280

19. Accounts Receivable

	Group	
	2003	2002
	HK\$'000	HK\$'000
Accounts receivable arising from the ordinary course of business of broking in securities and futures contracts:		
— securities cash clients	4,696	2,779
— securities margin clients	23,572	20,143
— securities clearing house and brokers	382	869
— futures clearing house and brokers		
— HKFECC	1,273	1,196
— brokers for commodity futures contracts on TGE and TOCOM	40,904	71,470
— brokers for commodity and currency futures contracts on other overseas exchanges	8,496	8,315
Accounts receivable from the provision of corporate finance advisory services	88	—
Accounts receivable arising from the provision of unit trusts and insurance-linked products agency services	2,599	72
	82,010	104,844

The accounts receivable from the HKFECC excludes a deposit of HK\$616,000 (2002: HK\$412,000) relating to the clients' monies.

19. Accounts Receivable *(Continued)*

Credit policy for margin lending activities

Accounts receivable from securities margin clients represents loans granted to the securities margin clients by a subsidiary of the Company, TSCL. These loans are collateralised by stocks pledged to TSCL.

Credit limit is set for each client based on their financial and trading credibility. The credit limit is approved by the credit control committee working group ("CCCWG"). The clients are allowed to trade only after the account opening and credit limit approval process have been completed. Loans are granted to securities margin clients on the condition that they pledge approved stocks with TSCL.

All approved stocks are assigned with specific margin ratios, which are determined by the credit control committee ("CCC"), for calculating the stock margin values. CCC reviews and determines the margin ratios for the stock collaterals with reference to the recommendations from CCCWG on a periodic basis.

If the amount of loan outstanding is higher than the eligible stock margin value, TSCL will call additional funds from the securities margin clients.

CCCWG is responsible for monitoring the margin call on a daily basis. It reviews the overall risk and credit control on a bi-weekly basis. CCC decides the actions to be taken for the clients, should the securities margin clients fail to meet the margin call, based on the margin call amount, the pledged securities value, the clients' credit worthiness and the overdue period.

The directors also monitor the margin call amount. Provision is made for loans which are considered to be doubtful.

Settlement terms

Accounts receivable arising from the ordinary course of business of broking in index, commodity and currency futures contracts represents the margin deposits maintained with the futures clearing house or brokers to meet the margin requirements of the open contracts. Margin calls from the clearing house and brokers are settled on a daily basis. The excess amounts over the required margin deposits stipulated are repayable on demand.

Accounts receivable from securities margin clients is secured by clients' pledged securities, repayable on demand and bear interest at commercial rates. As at 30th June 2003 and 30th June 2002, included in the accounts receivables from securities margin clients were overdue margin calls of HK\$5,242,000 and HK\$3,651,000 respectively.

19. Accounts Receivable (Continued)**Settlement terms** (Continued)

The ageing analysis of the overdue margin calls was as follow:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Within 30 days	1,725	—
31 — 90 days	229	—
91 — 180 days	—	—
181 — 270 days	3,252	—
271 — 360 days	36	3,651
	5,242	3,651

Provision of HK\$13,000 was made for an overdue margin call for the year ended 30th June 2003 (2002: Nil)

The settlement terms of accounts receivable arising from the ordinary course of business of broking in securities transactions are two days after the trade date of those transactions. As at 30th June 2003 and 30th June 2002, included in the accounts receivables from securities cash clients were receivables not settled on settlement date of HK\$915,000 and HK\$58,000 respectively.

The ageing analysis of the accounts receivable from securities cash clients which were not settled on settlement date was as follow:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Within 30 days	265	51
31 — 90 days	—	—
91 — 180 days	—	—
Over 180 days	650	7
	915	58

Provision of HK\$323,000 was made for these receivables not settled on settlement dates for the year ended 30th June 2003 (2002: Nil).

The accounts receivable arising from the provision of corporate finance advisory services are repayable within 30 days.

The accounts receivable arising from the provision of unit trusts and insurance-linked products agency services are repayable within 30 days.

20. Deposits, Prepayments and other Receivables

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Rental and other deposits	2,441	1,354	—	—
Prepayments and other receivables	2,134	16,345	—	29
	4,575	17,699	—	29

21. Cash and Bank Balances

The subsidiaries of the Company maintain trust accounts with authorised institutions as a result of their normal business transactions. At 30th June 2003, trust accounts not otherwise dealt with in these accounts amounted to HK\$36,714,000 (2002: HK\$40,145,000).

The subsidiaries of the Company pledge bank deposits as collaterals to authorised institutions from time to time for foreign exchange deferred trading and banking facilities. At 30th June 2003, they have pledged bank deposits of HK\$2,534,000 (2002: HK\$6,045,000) and HK\$1,763,000 (2002: HK\$772,500) to authorised institutions for foreign exchange deferred trading and banking facilities respectively.

22. Accounts Payable

	Group	
	2003 HK\$'000	2002 HK\$'000
Accounts payable arising from the ordinary course of business of broking in securities and futures contracts:		
— securities cash clients	4,137	2,569
— securities margin clients	243	1,730
— futures clients	47,726	78,974
Accounts payable arising from the provision of unit trusts and insurance-linked products agency services	18	12
	52,124	83,285

The settlement terms of accounts payable from the ordinary course of business of broking in securities in respect of cash clients and margin clients are two days after the trade date of those transactions.

The accounts payable arising in the ordinary course of business of broking in index, commodity and currency futures contracts represent the margin deposits received from clients for their trading of futures contracts. The excess over the required margin deposit stipulated are repayable to clients on demand.

22. Accounts Payable *(Continued)*

The accounts payable arising from the provision of unit trusts and insurance-linked products agency services are repayable within 30 days.

The accounts payable are stated net of clients' segregated assets of HK\$37,330,000 (2002: HK\$26,171,000).

23. Share Capital

	Ordinary share of HK\$0.1 each	
	No. of shares	HK\$'000
<i>Authorised:</i>		
At 1st July 2002 and 30th June 2003	1,000,000,000	100,000
<i>Issued and fully paid:</i>		
At 1st July 2002 and 30th June 2003	200,000,000	20,000
	Ordinary share of HK\$0.1 each	
	No. of shares	HK\$'000
<i>Authorised:</i>		
At 1st July 2001	1,000,000	100
Increase in authorised ordinary share capital pursuant to resolution passed on 11th January 2002	999,000,000	99,900
At 30th June 2002	1,000,000,000	100,000
<i>Issued and fully paid:</i>		
At 1st July 2001	—	—
Increase in share capital pursuant to resolution passed on 11th January 2002	1,779,900	178
Capitalisation issue pursuant to resolution passed on 7th January 2002	148,220,100	14,822
Public issue on 30th January 2002	50,000,000	5,000
At 30th June 2002	200,000,000	20,000

24. Share Option Scheme

In accordance with the Company's pre-listing share option scheme (the "Scheme"), which was adopted pursuant to a resolution passed on 7th January 2002, the directors may, at their absolute discretion, invite employees including directors, or bona fide consultants of the Company or any of its subsidiaries to take up options to subscribe for shares in the Company. A nominal consideration at HK\$1 is paid by the grantees for each lot of share options granted. Share options may be exercised in accordance with the terms of the Scheme at any time during the period commencing one year from the date of grant of the option and expiring on the years from the date on which the scheme was adopted.

Movements in the number of share options outstanding during the year are as follow:

	2003	2002
	Number of options	
At 1st July	19,790,000	—
Granted (Note (a))	—	20,000,000
Lapsed (Note (b))	(1,510,000)	(210,000)
At 30th June (Note (c))	18,280,000	19,790,000

- (a) Pursuant to the Scheme, share options were granted to certain directors, employees and bona fide consultants of the Group on 22nd February 2002 at the subscription price of HK\$0.72 per share which can be exercised at any time from 22nd February 2003 to 7th January 2012. Consideration of HK\$113 was received in respect of the share options granted. During the year, there was no share option granted and no respective consideration was received.
- (b) During the year, a total of 1,510,000 share options had lapsed in accordance with the terms and conditions of the Scheme due to the resignations of employees.
- (c) Share options outstanding at the end of the year have the following terms:

	2003	2002	2003	2002
	Number of options		Vested percentages	
Directors	6,550,000	4,600,000	100%	100%
Other employees	11,370,000	14,830,000	100%	100%
Bona fide consultants	360,000	360,000	100%	100%
	18,280,000	19,790,000		

25. Reserves

	Investment revaluation reserve <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Group Capital reserve (Note (a)) <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st July 2001,					
as previously reported	17,974	—	39,832	1,428	59,234
Change in accounting policies					
— provision for net deferred tax liabilities (Note 2(o))	—	—	—	(169)	(169)
At 1st July 2001, as restated	17,974	—	39,832	1,259	59,065
Change in fair value of non-trading investments	(1,372)	—	—	—	(1,372)
Arising from reorganisation	—	—	1,004	—	1,004
Premium arising from the public offer and placing of shares	—	45,000	—	—	45,000
Capitalisation issue of shares	—	(14,822)	—	—	(14,822)
Share issue expenses	—	(13,041)	—	—	(13,041)
Profit for the year	—	—	—	30,319	30,319
Dividends (Note 9)	—	—	—	(16,000)	(16,000)
At 30th June 2002	16,602	17,137	40,836	15,578	90,153
At 1st July 2002	16,602	17,137	40,836	15,753	90,328
Change in accounting policies					
— provision for net deferred tax liabilities (Note 2(o))	—	—	—	(175)	(175)
At 1st July 2002, as restated	16,602	17,137	40,836	15,578	90,153
Change in fair value of non-trading investments	(2,956)	—	—	—	(2,956)
Profit for the year	—	—	—	10,224	10,224
Dividends (Note 9)	—	—	—	(11,000)	(11,000)
At 30th June 2003	13,646	17,137	40,836	14,802	86,421
Representing:					
Retained earnings at 30th June 2003				14,802	
2003 final dividends proposed				(2,000)	
At 30th June 2003				12,802	

25. Reserves (Continued)

	Company				
	Investment revaluation reserve	Share premium	Contributed surplus (Note (b))	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st July 2001	—	—	—	—	—
Arising from reorganisation	—	—	65,059	—	65,059
Premium arising from the public offer and placing of shares	—	45,000	—	—	45,000
Capitalisation issue of shares	—	(14,822)	—	—	(14,822)
Share issue expenses	—	(13,041)	—	—	(13,041)
Profit for the year	—	—	—	6,196	6,196
Dividends (Note 9)	—	—	—	(6,000)	(6,000)
At 30th June 2002	—	17,137	65,059	196	82,392
At 1st July 2002	—	17,137	65,059	196	82,392
Change in fair value of non-trading investments	(801)	—	—	—	(801)
Profit for the year	—	—	—	22,334	22,334
Dividends (Note 9)	—	—	—	(11,000)	(11,000)
At 30th June 2003	(801)	17,137	65,059	11,530	92,925
Representing:					
Retained earnings at 30th June 2003				11,530	
2003 final dividends proposed				(2,000)	
At 30th June 2003				9,530	

(a) Capital reserve

The capital reserve of the Group represents the difference between the nominal value of the shares issued by the Company for the acquisition of the subsidiaries and the nominal value of the shares of the subsidiaries in issue at 30th June 2001, which were converted into deferred non-voting share capital on 11th January 2002.

25. Reserves *(Continued)***(b) Contributed surplus**

Contributed surplus represents the difference between the aggregate net asset value of subsidiaries acquired as a result of the reorganisation and the nominal amount of the Company's shares issued for the acquisition. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is available for distribution. However, the Company may not declare or pay a dividend, or make a distribution out of the contributed surplus, if there are reasonable grounds for believing that (i) it would, or would after the payment, be unable to pay its liabilities as they become due; or (ii) the realised value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

(c) Distributable reserve

As at 30th June 2003, in the opinion of the directors of the Company, the reserves of the Company available for distribution to shareholders amounted to HK\$75,788,000 (2002: HK\$65,255,000) subject to the restriction stated above.

26. Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2002: 16%).

The movement on the deferred tax (assets)/liabilities account is as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
At 1st July	175	169
Deferred taxation (credited)/charged to profit and loss account (Note 7)	(1,334)	6
At 30th June	(1,159)	175

Deferred income tax assets are recognised for tax loss carry forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK\$27,256,000 (2002: HK\$24,884,000) to carry forward against future taxable income. This tax loss has no expiry date.

26. Deferred taxation (Continued)

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

Deferred tax liabilities

	Accelerated tax depreciation	
	2003	2002
	HK\$'000	HK\$'000
At 1st July	294	197
(Credited)/charged to profit and loss account	(29)	97
At 30th June	265	294

Deferred tax assets

	Decelerated tax depreciation		Unused tax losses	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st July	119	28	—	—
Credited to profit and loss account	37	91	1,268	—
At 30th June	156	119	1,268	—

The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	2003	2002
	HK\$'000	HK\$'000
Deferred tax assets	(1,162)	(3)
Deferred tax liabilities	3	178
	(1,159)	175

The amounts shown in the balance sheet include the following:

Deferred tax assets to be recovered after more than 12 months	(590)	(3)
Deferred tax liabilities to be settled after more than 12 months	3	62

26. Deferred taxation *(Continued)***Deferred tax assets** *(Continued)*

The investment sentiment has turned around in middle of 2003 and pushed the Hang Seng Index ("HSI") up 20 percent, breaking a three-year bear market. The HSI gained much ground in July and August and trading volume went up to a record high of 20 billion with the average trading volume for July and August recorded at 9.8 billion and 12 billion respectively. Some have forecast the HSI will rise to 12,000 by year-end.

All the economic data both local and abroad is indicating that an economic recovery is underway. With an upward trend for HSI and the accompanying increase in corporate finance and IPO activities, it is probable that 2004 and 2005 will be prosperous years for securities broking business.

The increase in trading volume in July and August 2003 has certainly revived the securities broking business in Hong Kong and it was manifested in our securities broking subsidiary, which started recording profits since July this year. With the actual operating figures in July and August 2003, the Tanrich securities broking subsidiary is forecasted to generate assessable profits of about HK\$3.3 million and HK\$4 million for years ended 30th June 2004 and 2005 respectively.

According to the Hong Kong SAAP 12 Income Taxes, when it is probable that future profit will be generated, carried forward tax losses from that operation can be applied in offsetting the future profits expected and a deferred tax asset recorded on the balance sheet. Thus a deferred tax asset of HK\$1,268,000 was recorded on the consolidated balance sheet.

The deferred asset however has to be reviewed regularly for its recoverability and validity of evidence that led to its recording in the first instance. If it is found that the assumptions or circumstances are no longer valid, the deferred tax asset will then be removed and charged to the profit and loss account.

27. Commitments and Contingent Liabilities**(i) Commitments under operating leases**

As at 30th June 2003, the Group had future aggregate minimum lease payments under non-cancellable operating lease as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Land and buildings		
Not later than one year	8,698	3,414
Later than one year and not later than five years	6,029	5,176
	14,727	8,590

27. Commitments and Contingent Liabilities *(Continued)***(ii) Other commitments**

As at 30th June 2003, the Company has undertaken to guarantee the banking facilities of HK\$100.5 million granted to two of its subsidiaries. The banking facilities were applied in their normal courses of business activities.

(iii) Off-balance sheet financial instruments

The following table provides a detail breakdown of the contractual or notional amounts and the fair values of a subsidiary of the Company's off-balance sheet financial instruments outstanding at the year ended:

	Group	
	Contract/notional amounts	Fair value liabilities
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 30th June 2003		
Equity index futures contracts — Trading	2,875	11
Foreign exchange currency futures contracts — Trading	61,348	101
Foreign exchange deferred trading — Hedging	50,687	—
At 30th June 2002		
Equity index futures contracts — Trading	1,061	1
Foreign exchange deferred trading — Hedging	120,900	7,588

The notional amounts of these financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, are not a representation of the Group's exposure to the price or currency risks. The financial instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market prices or foreign exchange rates relative to their terms.

27. Commitments and Contingent Liabilities (Continued)**(iii) Off-balance sheet financial instruments** (Continued)

Market risks associated with the futures contracts arise due to the possible movements in indices and securities, values underlying these instruments. Other market and credit risks include the possibility that there may be an illiquid market for the futures contracts that the changes in the values of the futures contracts may not directly correlate with changes in the values of the underlying currencies, commodities, indices, or securities, or that the counter party to a future contract defaults on its obligation to perform under the terms of the contract.

(iv) Contingent liability

A subsidiary of the Company has received a claim for compensation in respect of disputed trades. As the arbitration proceedings are at a preliminary stage, it is not currently possible to estimate the eventual outcome of the claim and based on legal advice to date, the directors consider that no provision needs to be made in the financial statements.

28. Related Party Transactions

During the year, the Group had the following transactions with a related company, THKHL and its subsidiaries, TREGI and ULIL. These related companies are all controlled by a combination of certain directors of the Company. These transactions were arisen in the ordinary course of the Group's business.

	Note	Group	
		2003 HK\$'000	2002 HK\$'000
Operating leases on land and buildings	(a)	5,918	7,461
Rental expenses on staff quarter	(b)	3,870	—
Depreciation	(c)	2,148	1,852
Management fee income	(d)	(960)	(400)
Overhead recharged	(e)	—	1,183
Salaries and provident fund recharged	(f)	—	4,983
Commission income	(g)	—	(808)
Interest income	(h)	—	(356)

(a) The amount represented the rental expenses paid by the subsidiaries of the Company to TREGI for the use of office premises. The monthly rentals of these premises were determined with reference to the open market rentals. This arrangement was terminated in May 2003.

(b) The amount represented the rental expenses paid by a subsidiary of the Company to ULIL for the provision of accommodation to a director of the Company. The monthly rental of the premise was determined with reference to the open market rentals.

28. Related Party Transactions *(Continued)*

- (c) The amount represented the depreciation charge that should be borne by the Group for its use of fixed assets and share of renovation expenses. The depreciation charge was calculated on the direct cost allocation method.
- (d) The amount represented the staff cost charged to THKHL at HK\$80,000 per month for the management and personnel supportive services provided by the Group.
- (e) The amount represented certain operating expenses paid by THKHL on behalf of the subsidiaries of the Company. Those operating expenses directly attributable to TFL were allocated to TFL whilst any shared expenses were allocated on a relative headcount basis. This arrangement was terminated in January 2002.
- (f) The amount represented the staff cost charged by THKHL for the management and personnel supportive services provided to the Group. This arrangement was terminated in January 2002.
- (g) Tanrich Promotion Limited maintained an account with a subsidiary of the Company for trading in Japanese commodity futures contracts. The commission is charged at the same rate as that charged to third party customers.
- (h) Interest income was related to funding provided to THKHL and its subsidiary, Tanrich Financial Group Limited from subsidiaries of the Company where interest was charged at commercial rates. These arrangements were terminated upon the listing of shares of the Company.

29. Approval of Accounts

The accounts were approved by the Board of directors on 18th September 2003.