

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 Statement of Standard Accounting Practice (“SSAP”) 12 “Income Taxes” issued by the HKSA which is effective for accounting periods commencing on or after 1st January 2003.

The accounting policies set out below have taken into account the effect of adoption of this standard.

(b) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December 2003.

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.

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.

1. THE PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(b) Group accounting (Continued)

(i) Consolidation (Continued)

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.

(ii) 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.

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.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealised losses resulting from transactions with associated companies should not be eliminated to the extent that the transaction provides evidence of an impairment of the asset transferred.

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.

(iii) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the income statement.

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 a movement in reserves.

Notes to the Accounts

1. THE PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(c) Intangibles

(i) Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary or associated company 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 right" respectively) are classified as intangible assets and are amortised using the straight-line method over a period of 10 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 5 years.

(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.

(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%

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) 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 losses 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.

Notes to the Accounts

1. THE PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(f) Investments in securities (Continued)

(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.

(g) 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.

(h) 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.

(i) 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.

(j) 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.

1. THE PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(j) Employee benefits (Continued)

(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.

(iii) Pension obligations

The Group contributes to the mandatory provident fund (“MPF Scheme”), a defined contribution 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.

(k) Deferred taxation

Deferred taxation is provided in full, using liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. 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 can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associated companies, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior years, 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 SSAP 12 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.

Notes to the Accounts

1. THE PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(k) Deferred taxation (Continued)

As detailed in note 22 to the accounts, opening retained earnings at 1st January 2002 have been increased by HK\$662,735 and opening retained earnings at 1st January 2003 have been reduced by HK\$6,239 which represent the unprovided net deferred tax assets and unprovided net deferred tax liabilities respectively. This change has resulted in an increase in deferred tax assets and deferred tax liabilities at 31st December 2002 by HK\$1,163,186 and HK\$1,169,425 respectively. For the year ended 31st December 2002, loss after taxation has been increased by HK\$668,974.

(l) 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.

(m) 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.

1. THE PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(m) Revenue recognition (Continued)

Brokerage commission income arising from the brokerage of mutual funds is recognised when received. In prior years, the Group deferred to recognise its commission income and associated expenses over a period of twelve months on the ground that the commission income was subject to a clawback prescribed by the savings plans companies. The change in the current year represents a change in an accounting estimate, which has been applied prospectively. An amount, based on a certain percentage of the commission income and expenses and based on the historical statistics on the occurrence of the clawback of the brokerage commission income from the savings plans, has been provided for the possible clawback that may be claimed against the company. The directors consider that the change provides more reliable and relevant information on the business performance of the Group and is consistent with the local industry practice. The change has been applied prospectively and has resulted in an increase in net income of the Group by HK\$1.9 million for the year ended 31st December 2003.

For foreign currency option contracts brokered 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.

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.

Notes to the Accounts

1. THE PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(m) Revenue recognition (Continued)

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.

(n) Finance costs

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

(o) 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.

(p) Trust accounts

Trust accounts maintained by the subsidiaries of the Company to hold clients' monies are not 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 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.

1. THE PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(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) 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 and broking 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:

	2003 HK\$'000	2002 HK\$'000
Turnover		
Fees and commission	82,008	81,579
Net revenue from		
– foreign currency option trading	8,837	10,474
– bullion trading	2,917	1,012
Net premium income from		
– foreign currency option broking	1,635	2,968
– insurance brokerage	229	403
Swap interest and foreign exchange trading revenue	38,548	39,739
Interest income	6,182	7,226
Underwriting commission	447	655
Management fee and subscription fee income	989	795
	141,792	144,851
Other revenues		
Dividend income from listed securities	89	36
Other income including exchange gains	4,013	1,738
	4,102	1,774
Total revenues	145,894	146,625

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 – provision of dealing and broking in leveraged forex trading services on the world's major currencies including online broking services
2. Securities broking – provision of broking services in securities, equity linked products, unit trusts and stock options traded in Hong Kong and selected overseas markets and margin financing services to those brokerage clients
3. Commodities and futures broking – provision of broking services in commodities and futures contracts traded in Hong Kong and selected overseas markets
4. Corporate finance – provision of corporate finance and advisory services to companies listed in Hong Kong
5. Asset management – managing private funds and acting as an investment manager for investment companies
6. Financial planning and insurance broking – acting as an agent for the sale of savings plans, unit trusts, general and life insurance
7. Precious metal contracts trading/broking – provision of dealing and broking trading services on selected precious metals

There were no significant transactions between the business segments.

Secondary reporting format – Geographical Segments

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

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

There were no significant transactions 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 2003 HK\$'000	Commodities Securities broking 2003 HK\$'000	and futures broking 2003 HK\$'000	Corporate finance 2003 HK\$'000	Asset management 2003 HK\$'000	Financial planning/ insurance broking 2003 HK\$'000	Precious metal contracts trading/ broking 2003 HK\$'000	Unallocated 2003 HK\$'000	Total 2003 HK\$'000
Turnover	67,378	19,685	10,709	7,010	799	32,137	3,837	237	141,792
Segment results	7,827	(2,920)	(1,336)	(1,514)	(881)	3,450	316	(1,381)	3,561
Operating profit									3,561
Finance costs									(742)
									2,819
Share of profits of associated companies									1,629
Profit before taxation									4,448
Taxation payable									(1,570)
Profit attributable to shareholders									2,878
Segment assets	134,083	123,480	20,738	15,133	4,123	13,129	6,927	30,460	348,073
Investments in associated companies									9,534
Total assets									357,607
Segment liabilities	3,252	82,485	9,747	230	74	3,713	379	1,521	101,401
Total liabilities									101,401
Capital expenditure	748	229	25	–	–	4	50	1,020	2,076
Depreciation	1,325	1,735	46	33	2	22	11	227	3,401
Amortisation charge	–	332	150	–	–	–	60	182	724
Other non-cash expenses	445	262	15	1	–	6	–	10	739

Notes to the Accounts

2. TURNOVER, REVENUE AND SEGMENT INFORMATION (CONTINUED)

Primary reporting format – Business Segments (Continued)

	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	As restated 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									(1,972)
Loss attributable to shareholders									(10,522)
Segment assets	151,687	78,572	25,983	25,266	1,017	13,663	5,542	24,818	326,548
Investments in associated companies									616
Total assets									327,164
Segment liabilities	6,745	42,424	13,638	1,046	89	10,131	172	609	74,854
Total liabilities									74,854
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)

Secondary reporting format – Geographical Segments

	Turnover		Total assets		Capital expenditure	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Hong Kong	104,556	116,421	281,982	273,398	1,947	1,682
China	21,587	2,782	1,261	97	108	4
New Zealand	15,192	–	–	–	–	–
Other countries	457	25,648	63,864	51,890	21	219
	141,792	144,851	347,107	325,385	2,076	1,905
Investments in associated companies			9,534	616		
Deferred tax assets			966	1,163		
Total assets			357,607	327,164		

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

3. STAFF COSTS

	2003 HK\$'000	2002 HK\$'000
Salaries and allowances	39,670	39,006
Defined contribution plans (Note 10)	1,220	883
	40,890	39,889

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

Notes to the Accounts

4. OTHER OPERATING EXPENSES

	2003 HK\$'000	2002 HK\$'000
Advertising and promotion	2,124	1,912
Amortisation cost of trading rights	542	815
Amortisation of goodwill	182	3,238
Amortisation costs of investments in held-to-maturity security	59	–
Auditors' remuneration	941	1,452
Bank charges	255	316
Communication expenses	1,476	1,776
Depreciation of fixed assets	3,401	3,560
Equipment rental expenses	5,529	6,290
Exchange loss	3	12
Impairment charge		
– trading right	–	2,500
– goodwill	171	3,237
Interest paid to clients	5	59
Legal and professional fee	1,115	2,222
Loss on disposal of fixed assets	739	98
Miscellaneous expenses	9,085	8,074
Repairs and maintenance	2,878	3,408
	28,505	38,969

5. FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Interest on bank overdrafts	615	670
Interest on bank loans	127	297
	742	967

Notes to the Accounts

6. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit for the year. In 2003, the government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the consolidated income statement:

	2003	As restated
	HK\$'000	2002
		HK\$'000
Current taxation:		
– Hong Kong profits tax	1,117	1,845
– Overseas taxation	23	–
– Under/(over) provisions for taxation	172	(221)
Deferred taxation relating to the origination and reversal of temporary differences	(6)	348
	1,306	1,972
Share of taxation attributable to associated companies	264	–
Taxation charges	1,570	1,972

Notes to the Accounts

6. TAXATION (CONTINUED)

The taxation on the Group's profit/(loss) before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	2003 HK\$'000	2002 HK\$'000
Profit/(loss) before taxation	4,448	(8,550)
Calculated at a taxation rate of 17.5% (2002: 16%)	778	(1,368)
Effect of different taxation rates in other countries	67	–
Tax effect of income not subject to taxation	(968)	(734)
Tax effect of expenses not deductible for taxation purposes	1,699	4,773
Utilisation of previously unrecognised tax losses	(422)	(826)
Deferred taxation arising from temporary timing differences	(6)	348
Under/(over) provision for taxation	172	(221)
Others	(14)	–
	1,306	1,972
Share of associated companies' taxation	264	–
Taxation charges	1,570	1,972

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\$19,099,219 (2002: HK\$6,034,461).

8. DIVIDENDS

	2003 HK\$'000	2002 HK\$'000
Final, proposed, of HK\$0.025 (2002: nil) per ordinary share	9,778	–

At a meeting held on 19th April 2004, the directors proposed a final dividend of HK\$0.025 per ordinary share. 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 31st December 2004.

Notes to the Accounts

9. EARNINGS/(LOSSES) PER SHARE

The calculation of basic earnings/(losses) per share and diluted earnings per share are based on the Group's profit attributable to shareholders of HK\$2,877,749 (2002: loss attributable to shareholders of HK\$10,522,641) and the weighted average number of 391,130,000 (2002: 394,932,521) ordinary shares in issue during the year.

The diluted earnings per share for the year 2003 is calculated based on 391,358,263 ordinary shares which is the weighted average number of ordinary shares in issue during the year plus the weighted average number of 228,263 ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

The diluted losses per share for the year 2002 was the same as that for basic losses per share since potential conversion to ordinary shares for the exercise of the share options would be anti-dilutive.

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:

	2003 HK\$'000	2002 HK\$'000
Gross employer's contributions	1,220	1,090
Less: Forfeited contributions utilised to offset employer's contribution for the year	–	(207)
Net employer's contributions charged to income statement	1,220	883

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 Group during the year are as follows:

	2003 HK\$'000	2002 HK\$'000
Fees	441	380
Other emoluments:		
Basic salaries, other allowances, share options and benefits in kind	6,062	6,119
	6,503	6,499

Directors' fees disclosed above include HK\$340,714 (2002: HK\$280,000) paid to independent non-executive directors and HK\$100,000 (2002: HK\$100,000) paid to a non-executive director.

The emoluments of the directors fell within the following bands:

Emolument bands	Number of directors	
	2003	2002
HK\$Nil – HK\$1,000,000	8	7
HK\$1,000,001 – HK\$1,500,000	2	2
HK\$1,500,001 – HK\$2,000,000	1	1

None of the 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 (2002: 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 (2002: nil) was paid to the directors during the year.

Notes to the Accounts

11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (CONTINUED)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four directors (2002: four) whose emoluments are reflected in the analysis presented above. The emolument payable to the remaining one (2002: one) individual during the year is as follows:

	2003 HK\$'000	2002 HK\$'000
Basic salaries, other allowances, share options and benefits in kind	1,153	1,141
Bonuses	–	383
	1,153	1,524

The emoluments fell within the following bands:

Emolument bands	Number of individuals	
	2003	2002
HK\$1,000,001 – HK\$1,500,000	1	–
HK\$1,500,001 – HK\$2,000,000	–	1

Notes to the Accounts

12. INTANGIBLE ASSETS

	Group			
	Stock Exchange trading rights	Futures Exchange trading right	Membership of The Chinese Gold & Silver Exchange Society	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost				
At 1st January 2003 and				
at 31st December 2003	6,653	1,500	300	8,453
Accumulated amortisation and impairment losses				
At 1st January 2003	4,163	388	–	4,551
Amortisation charge	332	150	60	542
At 31st December 2003	4,495	538	60	5,093
Net book value				
At 31st December 2003	2,158	962	240	3,360
At 31st December 2002	2,490	1,112	300	3,902

In the current year, the directors assessed the current open market value of the Stock Exchange trading rights and Futures Exchange trading right. The directors considered no provision against impairment losses of such trading rights was necessary as the carrying amount of the trading rights would be recovered by the future cash flows arising from the continuing use of these trading rights in the securities and commodities brokerage business of the Group.

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 2003	1,332	1,795	11,853	1,224	16,204
Acquisition of subsidiaries (<i>Note 23(c)</i>)	–	–	103	–	103
Additions	49	27	1,432	460	1,968
Disposals	(822)	(907)	(1,293)	–	(3,022)
At 31st December 2003	559	915	12,095	1,684	15,253
Accumulated depreciation					
At 1st January 2003	995	817	4,574	637	7,023
Charge for the year	263	344	2,430	364	3,401
Disposals	(737)	(611)	(935)	–	(2,283)
At 31st December 2003	521	550	6,069	1,001	8,141
Net book value					
At 31st December 2003	38	365	6,026	683	7,112
At 31st December 2002	337	978	7,279	587	9,181

Notes to the Accounts

13. FIXED ASSETS (CONTINUED)

	Company		
	Furniture & fixtures HK\$'000	Office & computer equipments HK\$'000	Total HK\$'000
Cost			
At 1st January 2003	144	60	204
Additions	7	3	10
At 31st December 2003	151	63	214
Accumulated depreciation			
At 1st January 2003	2	1	3
Charge for the year	30	13	43
At 31st December 2003	32	14	46
Net book value			
At 31st December 2003	119	49	168
At 31st December 2002	142	59	201

14. OTHER ASSETS

	Group	
	2003 HK\$'000	2002 HK\$'000
Stock Exchange stamp duty deposit	30	75
Stock Exchange Fidelity Fund deposit	100	100
Stock Exchange Compensation Fund deposit	102	102
Guarantee Fund deposits with the Hong Kong Securities Clearing Company Limited	180	120
Statutory deposits and deposits with the Hong Kong Futures Exchange Limited ("HKFE")	1,786	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	1,500
	3,998	3,697

Notes to the Accounts

15. INVESTMENT IN SUBSIDIARIES

	Company	
	2003 HK\$'000	2002 HK\$'000
Investment at cost, unlisted shares	219,527	219,527
Amounts due from subsidiaries (Note (a))	44,723	29,707
	264,250	249,234

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

(c) The following is a list of subsidiaries at 31st December 2003:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Interest held directly	Interest held indirectly
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%
Hantec International Finance Group Limited ("HIFGL") (formerly known as "HT Securities Limited")	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 ("HTFL")	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%
Hantec Investment Consultant Limited ("HICL")	Hong Kong	Financial planning and insurance broking in Hong Kong	3,000,100 Ordinary shares of HK\$1 each, and 5,500,000 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	Interest held indirectly
Hantec Bullion Investments Limited (“HBIL”)	Hong Kong	Trading and broking of precious metal contracts in Hong Kong	7,500,000 Ordinary shares of HK\$1 each	–	100%
Hantec Asset Management Limited (“HAML”)	Hong Kong	Asset management in Hong Kong	5,500,100 Ordinary shares of HK\$1 each, and 2,000,000 non-voting deferred shares of HK\$1 each	–	100%
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 Financial Services Limited (“HFSL”)	Hong Kong	Investment holding in Hong Kong	100 Ordinary shares of HK\$1 each	–	100%
Hantec Business Consultant Limited (“HBCL”)	Hong Kong	Investment holding in Hong Kong	1,000,000 Ordinary shares of HK\$1 each	–	100%
北京康景商業顧問有限公司* (“康景”)	People’s Republic of China	Provision of consultation services in the People’s Republic of China	USD150,000 registered and paid-up capital	–	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

15. INVESTMENT IN SUBSIDIARIES (CONTINUED)

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Interest held directly	Interest held 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 (“HTBVIL”)	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%	–

* Subsidiaries not audited by PricewaterhouseCoopers

The aggregate net assets of the subsidiaries not audited by PricewaterhouseCoopers amounted to approximately 0.37% of the Group’s net assets.

Notes to the Accounts

16. INTERESTS IN ASSOCIATED COMPANIES

	Group	
	2003 HK\$'000	2002 HK\$'000
Share of net assets	8,621	616
Goodwill on acquisition of associated company less amortisation	913	–
	9,534	616
Investment at cost, unlisted shares	10,760	4,080

The following is a list of the principal associated companies at 31st December 2003:

Name	Place of incorporation and operations	Principal activities	Particulars of issued shares held	Interest Held indirectly
Fuji Hantec Forex Japan Company Limited (“FHF”)	Japan	Provision of broking and trading services in foreign exchange, futures and commodities	1,100 Ordinary shares of JPY\$50,000 each	25%
Cosmos Hantec Investment (NZ) Limited (“CHI”)	New Zealand	Provision of broking and trading services in foreign exchange	300,000 Ordinary shares of NZ\$1 each	30%
Cosmos Foreign Exchange International Company Limited (“CFX”)	Taiwan	Provision of broking and trading services in foreign exchange, currency funding and foreign exchange swaps	2,400,000 Ordinary shares of NT\$10 each	20%

- (a) FHF has a financial accounting period of 31st March which is not coterminous with the Group.

Notes to the Accounts

17. INVESTMENT IN SECURITIES

(a) Trading securities

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Equity securities, at market value:				
– Listed in Hong Kong	681	714	681	714

(b) Non-trading securities

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Equity securities, at market value:				
– Listed in Hong Kong	1,685	980	–	–

(c) Held-to-maturity securities

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Unlisted in overseas				
– 10-year callable notes, at amortised cost	15,541	15,600	–	–

Notes to the Accounts

18. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Trade receivables from clients	46,207	23,245	–	–
Less: provision for doubtful debts	(5,735)	(6,679)	–	–
Margin finance loans (Note (c))	46,317	51,029	–	–
Less: provision for doubtful debts	(4,795)	(4,859)	–	–
Margin and other trade related deposits with brokers and financial institutions (Note (b))	52,128	52,581	–	8
Trade receivables from clearing houses	16,852	–	–	–
Total trade receivables	150,974	115,317	–	8
Rental and utilities deposits	5,330	4,538	122	105
Prepayments and other receivables	2,590	6,285	1,246	1,148
Total trade and other receivables	158,894	126,140	1,368	1,261

(a) As at 31st December 2003, the aging analysis of the trade receivables was as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Current	150,044	114,729
30-60 days	64	322
Over 60 days	11,396	11,804
Less: Provision for doubtful debt	161,504	126,855
	(10,530)	(11,538)
	150,974	115,317

Notes to the Accounts

18. TRADE AND OTHER RECEIVABLES (CONTINUED)

- (b) The Group undertakes foreign exchange transactions, 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 Securities and Futures Ordinance which includes authorised institutions under the Hong Kong Banking Ordinance. Trade receivables at 31st December 2003 and 2002 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 for 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 practices.
- (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 policies. 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 a 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 2003, the designated accounts with SEOCH and HKFECC not otherwise dealt with in these accounts amounted to HK\$442,303 (2002: HK\$302,806) and HK\$8,280,960 (2002: HK\$9,389,194) respectively.

Notes to the Accounts

19. BANK BALANCES AND CASH

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Cash in hand	265	90	72	6
Bank balances				
– pledged	15,816	10,591	–	–
– general accounts	139,370	154,490	22,199	18,254
	155,186	165,081	22,199	18,254
	155,451	165,171	22,271	18,260
(a) By maturity:				
Bank balances				
– Current and savings account	128,416	75,968	22,199	18,254
– Fixed deposits (maturing within three months)	26,770	89,113	–	–
	155,186	165,081	22,199	18,254

As at 31st December 2003, bank deposits amounting to HK\$10,515,010 (2002: HK\$10,590,991) have been pledged to a bank for banking facilities to the extent of HK\$26 million (2002: HK\$26 million) in securities broking of the Group. In addition, bank deposits amounting to HK\$5,300,649 (2002: none) have been pledged to a financial institution for trading facilities in leveraged foreign exchange broking of the Group.

As at 31st December 2003, included in the aggregate banking facilities amounts of HK\$150 million (2002: HK\$180 million) granted to the Group, amounts of HK\$138 million (2002: HK\$168 million) were granted under the Company's corporate guarantee (Note 25). Whereas, a subsidiary of the Company which engages in securities broking has utilised HK\$32,442,000 (2002: HK\$23,940,000) of the aggregate banking facilities.

The subsidiaries of the Group maintained segregated trust accounts with authorised institutions as a result of their respective business activities. As at 31st December 2003, segregated trust accounts not otherwise dealt with in these accounts amounted to HK\$103,494,503 (2002: HK\$84,356,877).

Notes to the Accounts

20. TRADE AND OTHER PAYABLES

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Trade payable to securities trading clients	46,941	8,489	–	–
Margin and other deposits payable to other clients	9,459	12,917	–	–
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	1,548	9,341	–	–
Total trade payables	57,948	30,747	–	–
Accruals and other payables	9,741	17,493	418	449
Total trade and other payables	67,689	48,240	418	449

The settlement terms of trade payables 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.

Other trade payables are aged within 30 days.

Notes to the Accounts

21. SHARE CAPITAL

	2003		2002	
	No. of shares '000	Nominal value HK\$'000	No. of shares '000	Nominal value HK\$'000
Authorised				
Ordinary shares of HK\$0.10 each	1,000,000	100,000	1,000,000	100,000
Issued and fully paid				
Ordinary shares of HK\$0.10 each				
At 1st January	391,130	39,113	400,922	40,092
Repurchase of shares (<i>Note (a)</i>)	–	–	(9,792)	(979)
At 31st December	391,130	39,113	391,130	39,113

- (a) During 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 to share premium account.
- (b) Share options are granted to employees of the Group, including executive directors of the Group. 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. During the year, no option has been granted to or exercised by any eligible person or grantee respectively. Movements in the number of share options outstanding during the year are as follows:

	Number of options	
	2003 '000	2002 '000
At the beginning of the year	14,500	16,400
Granted	–	–
Exercised	–	–
Lapsed	(250)	(1,900)
At the end of the year	14,250	14,500

Notes to the Accounts

21. SHARE CAPITAL (CONTINUED)

HK\$'000

Fair value of the options at the date of grant with the expiry of:

– 1st February 2006	6,750
– 8th August 2006	3,713

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

Expiry Date	Exercise price	Number of options		Vested percentages	
		2003	2002	2003	2002
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		

Other employees					
– 1st February 2006	0.6600	6,100,000	6,300,000	100%	100%
– 8th August 2006	0.6128	3,850,000	3,900,000	100%	100%
		9,950,000	10,200,000		
		14,250,000	14,500,000		

Options covering 200,000 (2002: 1,900,000) ordinary shares at HK\$0.1 each exercisable at HK\$0.66 and 50,000 (2002: nil) ordinary shares at HK\$0.1 each exercisable at HK\$0.6128 were lapsed as a result of resignation of two grantees during the year.

Notes to the Accounts

22. RESERVES

	Group					
	Share premium HK\$'000	Capital reserves HK\$'000	Investment revaluation reserves HK\$'000	Retained earnings HK\$'000	Exchange differences HK\$'000	Total HK\$'000
At 1st January 2002, as previously reported	94,069	100,189	65	41,045	–	235,368
Change in accounting policy – Effect of adoption of SSAP12 (Note 1(k))	–	–	–	663	–	663
At 1st January 2002, as restated	94,069	100,189	65	41,708	–	236,031
Repurchase of shares	(4,284)	–	–	–	–	(4,284)
Surplus on revaluation of investments in securities held for non-trading purposes	–	–	(205)	–	–	(205)
Loss for the year	–	–	–	(10,522)	–	(10,522)
Dividend	–	–	–	(7,823)	–	(7,823)
At 31st December 2002, as restated	89,785	100,189	(140)	23,363	–	213,197
At 1st January 2003, as previously reported	89,785	100,189	(140)	23,369	–	213,203
Change in accounting policy – Effect of adoption of SSAP12 (Note 1(k))	–	–	–	(6)	–	(6)
At 1st January 2003, as restated	89,785	100,189	(140)	23,363	–	213,197
Deficit on revaluation of investments in securities held for non-trading purposes	–	–	705	–	–	705
Profit for the year	–	–	–	2,878	–	2,878
Exchange difference	–	–	–	–	313	313
At 31st December 2003	89,785	100,189	565	26,241	313	217,093
Company and subsidiaries	89,785	100,189	565	28,381	313	219,233
Associated companies	–	–	–	(2,140)	–	(2,140)
	89,785	100,189	565	26,241	313	217,093
Representing:-						
2003 final dividend proposed				9,778		
Others				16,463		
Retained earnings as at 31st December 2003				26,241		
At 31st December 2002						
Company and subsidiaries	89,785	100,189	(140)	26,827	–	216,661
Associated company	–	–	–	(3,464)	–	(3,464)
	89,785	100,189	(140)	23,363	–	213,197

Notes to the Accounts

22. RESERVES (CONTINUED)

	Company			
	Share premium	Retained earnings	Contributed surplus	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 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
Profit for the year	–	19,099	–	19,099
At 31st December 2003	89,785	26,321	133,101	249,207

(a) Retained earnings are represented as follows:

	Group		Company	
	2003 HK\$'000	As restated 2002	2003 HK\$'000	2002 HK\$'000
		2002 HK\$'000		
Representing:				
Final dividend proposed	9,778	–	9,778	–
Others	16,463	23,363	16,543	7,222
Retained earnings as at 31st December	26,241	23,363	26,321	7,222

(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.

22. RESERVES (CONTINUED)

(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 profit/(loss) to net cash (outflow)/inflow from operating activities

	2003 HK\$'000	2002 HK\$'000
Operating profit/(loss) before taxation	2,819	(5,086)
Depreciation of fixed assets	3,401	3,560
Amortisation cost of trading rights	542	815
Amortisation of goodwill	182	3,238
Amortisation costs of investments in held-to-maturity securities	59	–
Impairment charge		
– trading right	–	2,500
– goodwill	171	3,237
Interest paid	742	967
Dividend income from listed securities	(89)	(36)
Loss on disposal of fixed assets	739	98
Realised (gain)/loss on listed securities	(83)	7
Unrealised (gain)/loss on investments in trading securities	(289)	56
Written back of provision for doubtful debt	(1,008)	(385)
Bad debts written off	251	341
Unrealised profit with associated companies	(744)	–
Pledged deposits	(5,225)	(3,013)
Operating profit before working capital changes	1,468	6,299
Increase in other assets	(301)	(1,407)
Decrease/(increase) in trading securities	33	(695)
(Increase)/decrease in trade and other receivables	(31,997)	18,627
Increase in trade and other payables	19,449	13,368
Cash (outflow)/inflow generated from operations	(11,348)	36,192
Hong Kong profits tax paid	(2,906)	(65)
Taxation refund	–	3,348
Net cash (outflow)/inflow generated from operations	(14,254)	39,475

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	
	2003 HK\$'000	2002 HK\$'000
As at 1st January	128,898	134,161
Repurchase of shares	–	(5,263)
As at 31st December	128,898	128,898

(c) Purchase of subsidiaries

	2003 HK\$'000	2002 HK\$'000
Net assets acquired		
Fixed assets	103	–
Trade and other receivables	535	–
Bank balances and cash – general accounts	919	–
Trade and other payables	(1,320)	–
Taxation payables	(8)	–
	229	–
Goodwill	171	–
	400	–
Satisfied by:		
Cash	400	–

On 14th October 2003, the Group completed an acquisition of 100% shareholdings in Hantec Business Consultant Limited which has a wholly owned subsidiary known as “北京康景商業顧問有限公司” from Hantec Holdings Limited (“HHL”), its ultimate holding company, at a cash consideration of HK\$400,000.

The subsidiaries acquired during the year contributed revenues of HK\$467,579 and operating losses of HK\$59,583 to the Group for the period from the acquisition to the end of the year. Except for those disclosed above, the subsidiaries acquired had no significant contribution to the cash flows for the year ended 31st December 2003.

Notes to the Accounts

23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

(d) Analysis of the net cash inflow in respect of the purchase of the subsidiaries

	2003 HK\$'000	2002 HK\$'000
Cash consideration	(400)	–
Bank balances and cash in hand acquired	919	–
Net cash inflow in respect of the purchase of the subsidiaries	519	–

24. 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 account of net deferred tax (assets)/liabilities is as follows:

	2003 HK\$'000	Group As restated 2002 HK\$'000
At 1st January	6	(342)
Deferred taxation (credited)/charged to income statement (<i>Note 6</i>)	(6)	348
At 31st December	–	6

Deferred income tax assets are recognised for tax losses carried 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\$34,837,236 (2002: HK\$29,239,222) to carry forward against future taxable income. This tax loss has no expiry date.

Notes to the Accounts

24. DEFERRED TAXATION (CONTINUED)

The movement in net deferred tax (assets)/liabilities during the year is as follows:

	Accelerated tax depreciation HK\$'000	Others HK\$'000	Tax losses HK\$'000	Total HK\$'000
At 1st January 2003, as previously reported	-	-	-	-
Effect of adoption of SSAP12	1,169	-	(1,163)	6
At 1st January 2003, as restated	1,169	-	(1,163)	6
(Credited)/charged to income statement	(203)	-	197	(6)
At 31st December 2003	966		(966)	-

	Accelerated tax depreciation HK\$'000	Others HK\$'000	Tax losses HK\$'000	Total HK\$'000
At 1st January 2002, as previously reported	321	-	-	321
Effect of adoption of SSAP12	1,148	91	(1,902)	(663)
At 1st January 2002, as restated	1,469	91	(1,902)	(342)
(Credited)/charged to income statement	(300)	(91)	739	348
At 31st December 2002, as restated	1,169	-	(1,163)	6

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 2003 and 2002.

- (b) As at 31st December 2003, the Company had issued corporate guarantees to certain banks for credit facilities up to an amount of HK\$138,000,000 (2002: HK\$168,000,000) 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.

Notes to the Accounts

26. LEASE COMMITMENTS

At 31st December 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2003	Group
	HK\$'000	2002
		HK\$'000
Land and buildings		
Not later than one year	6,232	8,575
Later than one year and not later than five years	10,293	3,881
	16,525	12,456

27. ASSETS, LIABILITIES AND COMMITMENTS IN FOREIGN CURRENCIES

	2003	2002
	HK\$'000	HK\$'000
Total assets in foreign currencies included in the balance sheet	130,284	166,468
Total liabilities in foreign currencies included in the balance sheet	1,635	8,547
Total commitments to purchase foreign currencies under leveraged foreign exchange trading contracts	1,130,450	2,129,010
Total commitments to sell foreign currencies under leveraged foreign exchange trading contracts	1,309,031	1,943,170
Total commitments to purchase foreign currencies under option contracts	41,118	924,707
Total commitments to sell foreign currencies under option contracts	393,494	923,336

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 currency 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:

	2003 HK\$'000	2002 HK\$'000
Net premium income from foreign currency option trading and broking (<i>Note (a)</i>)	11,534	–
Commission income received (<i>Note (a)</i>)	131	167
Management fee income (<i>Note (b)</i>)	407	183
Placing commission received (<i>Note (c)</i>)	294	–
Financial advisory service fee (<i>Note (d)</i>)	300	–

- (a) During the year, the associated companies in New Zealand and Japan transacted leveraged foreign exchange trading, securities trading, and commodities trading through three subsidiaries of the Group. Commissions and option premium income were charged to these transactions on normal commercial terms. Commission of HK\$131,245 (2002: HK\$166,699) and option premium income of HK\$11,533,668 (2002: nil) were contributed to turnover of the Group.

For leveraged foreign exchange transactions, spreads are based on relevant market rates at the time of each transaction available to other customers and counterparties of the Group with comparable standing. The aggregate notional amount of the transactions entered by the associated companies amounted to HK\$48,406 million (2002: HK\$24,195 million) out of the total aggregate notional amount of the transactions of HK\$340,556 million (2002: HK\$289,731 million) entered by the Group during the year.

- (b) During the year, the management fee totaling of HK\$407,205 (2002: HK\$182,788) was received from an investment company in which the Chairman of the Group is also an executive director. Management fee was charged at normal commercial terms.
- (c) During the year, the commission for placement of HK\$294,375 (2002: nil) was received from an investment holding company in which the Deputy Chairman of the Group is also an independent non-executive director. Commission was charged at normal commercial terms.
- (d) During the year, financial advisory service fee of HK\$300,000 (2002: nil) was charged by the Group to Hantec Holdings Limited (“HHL”), the ultimate holding company, for providing certain corporate financial advisory services. The service fee was charged at normal commercial terms.

Notes to the Accounts

28. RELATED PARTY TRANSACTIONS (CONTINUED)

- (e) On 10th June 2003, a wholly owned subsidiary of the Company entered into a sale and purchase agreement with HHL, for the acquisition of 20% equity interest in Cosmos Foreign Exchange International Limited (“CFX”), incorporated in Taiwan, at a consideration of HK\$6,000,000. CFX is principally engaged in provision of broking and trading services in foreign exchange and foreign exchange swap. The transaction was completed on 26th July 2003.
- (g) On 22nd August 2003, one of the wholly owned subsidiary of the company has entered into a sale and purchase agreement with HHL, for the acquisition of 100% equity interest in Hantec Business Consultant Limited which has a wholly owned subsidiary known as “北京康景商業顧問有限公司”, at a consideration of HK\$400,000. 北京康景商業顧問有限公司 is principally engaged in provision of consulting services in People’s Republic of China. The transaction was completed on 14th October 2003.

29. CAPITAL COMMITMENTS

Capital commitments for system software development and fixed asset acquisition

	2003	Group
	HK\$’000	2002
		HK\$’000
Contracted but not provided for	1,827	–

30. SUBSEQUENT EVENTS

On 27th February 2004, the Group entered into a sale and purchase agreement with an independent third party to acquire 富林國際證券投資顧問股份有限公司, at a cash consideration of HK\$9,025,880 (NTD37,907,939). The agreement was completed on same date. 富林國際證券投資顧問股份有限公司 is principally engaged in provision of wealth management, investment advisory and consultancy services.

31. ULTIMATE HOLDING COMPANY

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

32. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 19th April 2004.