

Notes to the Accounts

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 Institute of Certified Public Accountants ("HKICPA"). 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

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

(a) Consolidation

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

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

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

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

(c) Intangible assets

The subsidiaries of the Company hold two trading rights on the SEHK and two trading rights on the HKFE. The trading rights are recognised as intangible assets on the balance sheet. One trading right on the SEHK was purchased in fiscal year 2003 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 immediately to its recoverable amount.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(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 follows:

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.

(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.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) Non-trading investments *(Continued)*

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 and loans and advances to the extent that they are considered to be doubtful. Accounts receivable and 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 purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, balances with banks with original maturity less than three months and bank overdrafts.

(j) Provisions and contingent liabilities

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.

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 company. It can also be a present obligation arising from past events that is not recognised because it is not probable that an 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 the outflow is probable, it will then be recognised as a provision.

(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 which trade dates fall within the accounting year have been taken into account.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(k) Revenue recognition *(Continued)*

Commission income from unit trusts sales and insurance-linked products are recognised when services are rendered.

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

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.

(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.

Segment assets consist primarily of intangible assets, fixed assets, accounts receivable and operating cash and exclude items such as taxation.

Segment liabilities comprise accounts payable and operating liabilities and exclude items such as taxation.

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 benefit

(i) *Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrued 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 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 twelve months and are measured at the amounts expected to be paid when they are settled.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(m) Employee benefit *(Continued)*

(iii) Retirement benefit 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 pension 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. The contributions to the defined contribution scheme are reduced by past contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

(iv) Equity compensation benefits

Share options of the Company are granted to certain directors, employees and advisors and consultants of the Group under the share option schemes. Equity compensation benefits resulting from the issue of share options to the Group's directors, employees and advisors and 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 accounts until such time as the share options are exercised. Upon the exercise of the share options, proceeds from the resulting shares issued are recorded by the Company in the share capital and share premium account as appropriate.

(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.

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 accounts. 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.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

The carrying amount of a deferred tax 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.

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.

Unrealised gains on trading derivatives which are marked to market are included in accounts receivable. Unrealised losses on transactions which are marked to market are included in accounts payable.

Foreign exchange deferred trading designated as hedges is 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.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

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.

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.

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.

Notes to the Accounts

3. TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

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

	2004 HK\$'000	2003 HK\$'000
TURNOVER		
Brokerage commission:		
– commodity futures contracts on TGE and TOCOM	77,303	88,547
– commodity and currency futures contracts on other overseas exchanges	21,499	29,335
– index futures contracts on the HKFE	431	540
– securities dealing	8,821	3,587
Advisory and asset management fees		
– corporate finance and advisory	715	145
– commission on sale of unit trust and insurance-linked products	2,439	4,878
Interest income:		
– securities margin financing	3,589	2,126
– loans and advances	1,844	62
– deposits with clearing houses and brokers	–	1
– bank deposits and others	754	1,273
Proprietary trading in futures contracts		
– on the HKFE	1,449	102
– on overseas exchanges	13,529	(3,907)
	132,373	126,689
OTHER REVENUE		
Dividend income	2,978	900
Exchange gains	2,219	386
Management fee income <i>(note 28(c))</i>	960	960
Loan arrangement fee income	580	–
Other income	288	164
	7,025	2,410
Total turnover and revenue	139,398	129,099

Notes to the Accounts

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, provision of personal financial consulting and planning services, and provision of insurance agency and broking services |
| Money lending | – | provision of corporate and personal financing services |
| Proprietary trading | – | proprietary trading in index futures contracts on the HKFE and currency futures contracts on overseas exchanges |

Notes to the Accounts

3. TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

Segment information about these businesses is presented below:

	2004								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	<u>99,668</u>	<u>9,032</u>	<u>3,675</u>	<u>735</u>	<u>2,441</u>	<u>1,843</u>	<u>14,978</u>	<u>1</u>	<u>132,373</u>
RESULTS	<u>15,552</u>	<u>1,527</u>	<u>789</u>	<u>(2,503)</u>	<u>(2,930)</u>	<u>1,843</u>	<u>13,380</u>	<u>1,375</u>	<u>29,033</u>
Finance costs									(325)
Gain on disposal of non-trading investments									145
Taxation									(2,585)
Minority interests									14
Profit attributable to shareholders									<u>26,282</u>
ASSETS									
Segment assets	89,826	11,061	51,875	5,157	3,854	21,145	6,805	18,227	207,950
Taxation									3,325
Total assets									<u>211,275</u>
LIABILITIES									
Segment liabilities	47,478	5,322	2,540	92	1,555	32	-	308	57,327
Taxation									18,139
Total liabilities									<u>75,466</u>
Capital expenditure	1,323	219	89	8	137	-	-	439	2,215
Depreciation	1,172	331	134	8	63	-	-	11	1,719
Amortisation	-	60	-	-	-	-	-	-	60

Notes to the Accounts

3. TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

	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
RESULTS	25,230	(2,266)	(1,158)	(2,785)	(2,195)	(60)	(4,207)	334	12,893
Finance costs									(398)
Taxation									(2,271)
Profit attributable to shareholders									10,224
ASSETS									
Segment assets	106,636	17,489	25,194	8,044	5,135	1,958	2,947	11,172	178,575
Taxation									1,162
Total assets									179,737
LIABILITIES									
Segment liabilities	52,061	4,760	613	71	2,388	32	-	-	59,925
Taxation									13,391
Total liabilities									73,316
Capital expenditure	89	895	174	5	46	-	-	-	1,209
Depreciation	999	303	180	7	54	-	-	-	1,543
Amortisation	-	10	-	-	-	-	-	-	10

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.

Notes to the Accounts

4. STAFF COSTS

	2004 HK\$'000	2003 HK\$'000
Salaries, commissions and allowances	63,539	62,783
Contributions to retirement benefits schemes (Note 12)	1,040	1,257
Rental expenses on staff quarter (Note 28(a))	5,294	3,870
Others	259	304
	<u>70,132</u>	<u>68,214</u>

Staff costs include directors' emoluments (Note 11).

5. OTHER OPERATING EXPENSES

	2004 HK\$'000	2003 HK\$'000
Advertising and market development	1,597	1,802
Amortisation of intangible assets	60	10
Auditors' remuneration		
– Current year	950	950
– (Over)/under provision in prior years	(58)	67
Building management fees	1,078	1,456
Depreciation of owned fixed assets	1,719	1,543
Depreciation charges paid to a related company (Note 28(b))	2,247	2,148
Legal and professional fees	1,875	1,412
Loss on disposal of fixed assets	1	691
Repairs and maintenance	786	817
Telecommunication costs	2,967	2,808
Other administrative and miscellaneous expenses	7,909	7,812
	<u>21,131</u>	<u>21,516</u>

Notes to the Accounts

6. FINANCE COSTS

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Interest on bank overdrafts wholly repayable within five years	<u>325</u>	<u>398</u>

7. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the year.

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

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Current taxation:		
Hong Kong profits tax	4,695	3,605
Deferred taxation relating to the origination and reversal of temporary differences (<i>Note 26</i>)	(2,110)	(1,350)
Deferred taxation resulting from an increase in tax rate (<i>Note 26</i>)	–	16
Taxation charge	<u>2,585</u>	<u>2,271</u>

Reconciliation between taxation charge and accounting profit at Hong Kong profits tax rate is as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Profit before taxation	<u>28,853</u>	<u>12,495</u>
Calculated at a taxation rate of 17.5% (2003: 17.5%)		
Income not subject to taxation	5,049	2,187
	(627)	(352)
Expenses not deductible for taxation purposes	9	5
Unrecognised tax losses for the current year	1,034	1,683
Recognition of prior years' tax losses	(2,880)	(1,268)
Increase in opening net deferred tax liabilities resulting from an increase in tax rate	–	16
Taxation charge	<u>2,585</u>	<u>2,271</u>

Notes to the Accounts

8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$3,790,000 (2003: HK\$22,334,000).

9. DIVIDENDS

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Interim, declared and paid, of HK1 cent (2003: HK1 cent) per ordinary share	2,000	2,000
Final, proposed, of HK1 cent (2003: HK1 cent) (Note) per ordinary share	2,000	2,000
	4,000	4,000

Note: A final dividend of HK1 cent (2003: HK1 cent) 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 2005.

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\$26,282,000 (2003: HK\$10,224,000) divided by the weighted average number of 200,000,000 shares (2003: 200,000,000 shares) in issue during the year.

Diluted earnings per share for the years ended 30th June 2004 and 2003 were not disclosed as there were no dilutive potential ordinary shares.

Notes to the Accounts

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:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Fees:		
Executive directors	–	–
Non-executive directors	360	360
	360	360
Other emoluments (executive directors):		
Salaries and other benefits	5,401	8,758
Bonus	5,759	–
Housing benefits	5,160	3,870
Contributions to retirement benefits schemes	98	114
	16,418	12,742
	16,778	13,102

In addition to the directors' emoluments disclosed above, certain directors were granted share options under the Company's share option schemes. The details of these benefits in kind are disclosed under the section Share Option Schemes in the Directors' Report and Note 24 to the accounts.

The emoluments of the directors fell within the following bands:

	Number of directors	
	2004	2003
Nil to HK\$1,000,000	3	2
HK\$1,500,001 to HK\$2,000,000	–	1
HK\$2,000,001 to HK\$2,500,000	–	1
HK\$2,500,001 to HK\$3,000,000	1	1
HK\$3,000,001 to HK\$3,500,000	1	–
HK\$6,000,001 to HK\$6,500,000	–	1
HK\$9,500,001 to HK\$10,000,000	1	–

Notes to the Accounts

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

Employees' emoluments

The five individuals whose emoluments were the highest in the Group for the year include three directors (2003: three directors) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2003: two) individuals during the year are as follow:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Salaries, bonus and other benefits	1,977	4,251
Contributions to retirement benefits schemes	24	21
	<u>2,001</u>	<u>4,272</u>

The emoluments fell within the following bands:

	Number of individuals	
	2004	2003
Nil to HK\$1,000,000	1	–
HK\$1,000,001 to HK\$1,500,000	1	–
HK\$2,000,001 to HK\$2,500,000	–	2
	<u>–</u>	<u>2</u>

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.

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 HK\$1,000 per month. All statutory contributions under the MPF Scheme are immediately fully vested on the employees.

Notes to the Accounts

12. RETIREMENT BENEFITS SCHEMES *(Continued)*

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:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Gross employer's contributions	1,535	1,614
Less: Forfeited contributions utilised to offset employer's contributions for the year	(495)	(357)
Net employer's contributions charged to profit and loss account	1,040	1,257

13. INTANGIBLE ASSETS

	Group <i>HK\$'000</i>
COST	
At 1st July 2003 and 30th June 2004	600
ACCUMULATED AMORTISATION	
At 1st July 2003	10
Charge for the year	60
At 30th June 2004	70
CARRYING AMOUNT	
At 30th June 2004	530
At 30th June 2003	590

Notes to the Accounts

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 2003	1,820	484	1,216	2,547	6,067
Additions	253	261	395	1,306	2,215
Disposal	–	–	–	(2)	(2)
At 30th June 2004	<u>2,073</u>	<u>745</u>	<u>1,611</u>	<u>3,851</u>	<u>8,280</u>
ACCUMULATED DEPRECIATION					
At 1st July 2003	1,086	244	521	1,579	3,430
Charge for the year	576	92	297	754	1,719
Disposal	–	–	–	(1)	(1)
At 30th June 2004	<u>1,662</u>	<u>336</u>	<u>818</u>	<u>2,332</u>	<u>5,148</u>
NET BOOK VALUE					
At 30th June 2004	<u>411</u>	<u>409</u>	<u>793</u>	<u>1,519</u>	<u>3,132</u>
At 30th June 2003	<u>734</u>	<u>240</u>	<u>695</u>	<u>968</u>	<u>2,637</u>

Notes to the Accounts

15. OTHER ASSETS

	Group	
	2004 HK\$'000	2003 HK\$'000
Reserve fund deposits with the Hong Kong Futures Exchange Clearing Corporation Limited ("HKFECC")	1,500	1,500
Statutory deposits with the SEHK	200	200
Statutory deposits with the SFC	100	100
Contributions to the Central Clearing and Settlement System Guarantee Fund	100	100
Admission fees paid to the Hong Kong Securities Clearing Company Limited	100	100
Deposits with the Compensation Fund of the HKFE	–	100
	<u>2,000</u>	<u>2,100</u>

16. NON-TRADING INVESTMENTS

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Listed equities in Hong Kong, at fair value	<u>20,896</u>	<u>23,176</u>	<u>12,880</u>	<u>8,549</u>

A subsidiary of the Company has pledged listed investments of aggregate carrying amount of HK\$8,016,000 (2003: HK\$14,571,000) to a bank as collateral for the banking facilities.

At 30th June 2004, the carrying amount of interests in the following company exceeded 10% of total assets of the Company:

Name	Place of incorporation	Principal activities	Particulars of issued shares held	% interest held
Hong Kong Exchanges and Clearing Limited	Hong Kong	Investment holding	Ordinary shares of HK\$1 each	0.08%

Notes to the Accounts

17. INVESTMENTS IN SUBSIDIARIES

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	65,237	65,237
Amounts due from subsidiaries	32,300	38,000
	<u>97,537</u>	<u>103,237</u>

The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment.

The following is a list of the subsidiaries as at 30th June 2004. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation/ place of operations	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	HK\$30,000,000 (divided into 20,000,000 ordinary shares and 10,000,000 non-voting deferred shares of HK\$1 each)	–	100%
Tanrich Securities Company Limited ("TSCL")	Hong Kong/ Hong Kong	Securities broking, securities margin financing, underwriting and investment advisory services	HK\$80,000,000 (divided into 55,000,000 ordinary shares and 25,000,000 non-voting deferred shares of HK\$1 each)	–	100%

Notes to the Accounts

17. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ place of operations	Principal activities	Issued and fully paid share capital	Percentage of equity interest attributable to the Group	
				Direct	Indirect
Tanrich Asset Management Limited ("TAML")	Hong Kong/ Hong Kong	Distribution of unit trusts, mutual funds, insurance-linked products, provision of personal financial consulting and planning services and provision of insurance agency and broking services	HK\$13,000,000 (divided into 7,000,000 ordinary shares and 6,000,000 non-voting deferred shares of HK\$1 each)	–	100%
Tanrich Finance Limited ("TFIN")	Hong Kong/ Hong Kong	Provision of corporate and personal financing services	HK\$11,000 (divided into 1,000 ordinary shares and 10,000 non-voting deferred shares of HK\$1 each)	–	100%
Tanrich Capital Limited ("TCL")	Hong Kong/ Hong Kong	Provision of corporate finance advisory services	HK\$10,000,000 (divided into 10,000,000 ordinary shares of HK\$1 each)	–	100%
Tanrich Financial Group (China) Limited ("TFC")	Hong Kong/ Hong Kong	Provision of professional advisory services	HK\$1,000,000 (divided into 1,000,000 ordinary shares of HK\$1 each)	–	95%

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 (HK\$0.01) per non-voting deferred share when the profit exceeds HK\$100,000 million in any financial year.

Notes to the Accounts

18. LOANS AND ADVANCES

	Group	
	2004 HK\$'000	2003 HK\$'000
Loans and advances – unsecured	27	131
– secured	<u>20,346</u>	<u>556</u>
	20,373	687
Current portion of loans and advances	<u>(20,238)</u>	<u>(341)</u>
	<u>135</u>	<u>346</u>

Loans and advances are granted to the clients by the subsidiaries of the Company based on credit assessment. Their size and terms are offered subject to their pledged collateral.

19. ACCOUNTS RECEIVABLE

	Group	
	2004 HK\$'000	2003 HK\$'000
Accounts receivable arising from the ordinary course of business of broking in securities and futures contracts:		
– securities cash clients	3,102	4,696
– securities margin clients	49,037	23,572
– securities clearing house and brokers	3,227	382
– futures clearing house and brokers		
– HKFECC	601	1,273
– brokers for commodity futures contracts on TGE and TOCOM	24,579	40,904
– brokers for commodity and currency futures contracts on other overseas exchanges	19,904	8,496
Accounts receivable arising from the provision of corporate finance advisory services	30	88
Accounts receivable arising from the provision of unit trusts and insurance-linked products agency services	<u>747</u>	<u>2,599</u>
	<u>101,227</u>	<u>82,010</u>

Notes to the Accounts

19. ACCOUNTS RECEIVABLE *(Continued)*

The accounts receivable from the HKFECC excludes a deposit of HK\$1,170,000 (2003: HK\$616,000) relating to the clients' monies.

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 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 2004 and 30th June 2003, included in the accounts receivable from securities margin clients were overdue margin calls of HK\$8,628,000 and HK\$5,242,000 respectively.

Notes to the Accounts

19. ACCOUNTS RECEIVABLE *(Continued)*

Settlement terms *(Continued)*

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

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	4,639	1,725
31 – 90 days	991	229
91 – 180 days	–	–
181 – 270 days	–	3,252
271 – 360 days	2,998	36
	<u>8,628</u>	<u>5,242</u>

No provision was made for overdue margin calls as at 30th June 2004 (2003: HK\$13,000).

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 2004 and 30th June 2003, included in the accounts receivable from securities cash clients were receivables not settled on settlement dates of HK\$876,000 and HK\$915,000 respectively.

The ageing analysis of the accounts receivables from securities cash clients and corporate finance advisory services which were not settled on settlement dates was as follows:

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	142	265
31 – 90 days	84	–
91 – 180 days	–	–
Over 180 days	680	650
	<u>906</u>	<u>915</u>

Provision of HK\$650,000 was made for these receivables not settled on settlement dates as at 30th June 2004 (2003: HK\$328,000).

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

Notes to the Accounts

20. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	Group	
	2004 HK\$'000	2003 HK\$'000
Rental and other deposits	3,525	2,441
Prepayments and other receivables	2,681	2,134
	6,206	4,575
	6,206	4,575

21. CASH AND BANK BALANCES

The subsidiaries of the Company pledge bank deposits as collateral to authorised institutions from time to time for foreign exchange deferred trading and banking facilities. At 30th June 2004, they have pledged bank deposits of HK\$1,560,000 (2003: HK\$2,534,000) and HK\$1,763,000 (2003: HK\$1,763,000) to authorised institutions for foreign exchange deferred trading and banking facilities respectively.

The subsidiaries of the Company maintain trust accounts with authorised institutions as a result of their normal business transactions. At 30th June 2004, trust accounts not otherwise dealt with in these accounts amounted to HK\$41,789,000 (2003: HK\$36,714,000).

22. ACCOUNTS PAYABLE

	Group	
	2004 HK\$'000	2003 HK\$'000
Accounts payable arising from the ordinary course of business of broking in securities and futures contracts:		
– securities cash clients	4,366	4,137
– securities margin clients	2,150	243
– futures clients	38,308	47,726
Accounts payable arising from the provision of unit trusts and insurance-linked products agency services	110	18
	44,934	52,124
	44,934	52,124

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.

Notes to the Accounts

22. ACCOUNTS PAYABLE *(Continued)*

The accounts payable arising from 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.

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\$42,959,000 (2003: HK\$37,330,000).

23. SHARE CAPITAL

	Ordinary share of HK\$0.1 each	
	<i>No. of shares</i>	<i>HK\$'000</i>
Authorised:		
At 1st July 2003 and 30th June 2004	<u>1,000,000,000</u>	<u>100,000</u>
Issued and fully paid:		
At 1st July 2003 and 30th June 2004	<u>200,000,000</u>	<u>20,000</u>

24. SHARE OPTION SCHEMES

Pre-Listing Share Option Scheme

Pursuant to a share option scheme of the Company (the "Pre-Listing Scheme") which was adopted on 7th January 2002, the directors of the Company may, at their absolute discretion, invite employees including directors, or bona fide consultants of the Group 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 Pre-Listing Scheme at any time during the period commencing one year from the date of grant of the option and expiring on the earlier of the last day of (i) a ten year period from the date of grant of the option or (ii) ten years from the adoption date.

Notes to the Accounts

24. SHARE OPTION SCHEMES (Continued)

Pre-Listing Share Option Scheme (Continued)

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

	Number of options	
	2004	2003
At 1st July	18,280,000	19,790,000
Granted (note (a))	–	–
Lapsed (note (b))	(3,240,000)	(1,510,000)
At 30th June (note (c))	<u>15,040,000</u>	<u>18,280,000</u>

- (a) Pursuant to the Pre-Listing 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. Total consideration of HK\$113 was received in respect of the share options granted. During the year, there was no share option granted and no consideration was received.
- (b) During the year, a total of 3,240,000 (2003: 1,510,000) share options had lapsed in accordance with the terms and conditions of the Pre-Listing Scheme following the resignation of a director, employees and expiration of consultancy agreements.
- (c) Share options outstanding at the end of the year have the following terms:

	Number of options		Vested percentages	
	2004	2003	2004	2003
Directors	5,950,000	6,550,000	100%	100%
Other employees	8,800,000	11,370,000	100%	100%
Bona fide consultants	290,000	360,000	100%	100%
	<u>15,040,000</u>	<u>18,280,000</u>		

Post-Listing Share Option Scheme

Another share option scheme of the Company was adopted on 30th January 2004 (the "Post-Listing Scheme"). The Board of the Company may, at their absolute discretion, grant share options to eligible persons including any director, employee, consultant, business associate and advisor of the Group to subscribe for shares in the Company subject to the terms and conditions stipulated therein. No consideration is paid or payable for the acceptance of the share options granted. Share options may be exercised in accordance with the terms of the Post-Listing Scheme at any time during the period not to be less than one year and not to exceed ten years from the date of grant of the relevant options.

Notes to the Accounts

24. SHARE OPTION SCHEMES *(Continued)*

Post-Listing Share Option Scheme *(Continued)*

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

	Number of options	
	2004	2003
At 1st July	–	–
Granted <i>(note (a))</i>	18,614,000	–
Lapsed <i>(note (b))</i>	–	–
	<hr/>	<hr/>
At 30th June <i>(note (c))</i>	<u>18,614,000</u>	–

- (a) Pursuant to the Post-Listing Scheme, share options were granted to certain directors, employees and advisors and consultants of the Group on 27th April 2004 at the subscription price of HK\$0.67 per share which can be exercised at any time from 27th April 2005 to 26th April 2014. During the year, 18,614,000 share options were granted and no respective consideration was received.
- (b) During the year, no share options had lapsed in accordance with the terms and conditions of the Post-Listing Scheme.
- (c) Share options outstanding at the end of the year have the following terms:

	Number of options	Vested percentages
	2004	2004
Director	2,000,000	–
Other employees	13,038,000	–
Advisors and consultants	3,576,000	–
	<hr/>	
	<u>18,614,000</u>	

Notes to the Accounts

25. RESERVES

	Group				
	Investment revaluation reserve <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital reserve <i>(Note (a))</i> <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st July 2002, as previously reported	16,602	17,137	40,836	15,753	90,328
Change in accounting policies – provision for net deferred tax liabilities				(175)	(175)
At 1st July 2002, as restated	16,602	17,137	40,836	15,578	90,153
Deficit on revaluation of non-trading investments	(2,956)	–	–	–	(2,956)
Profit for the year	–	–	–	10,224	10,224
Dividends paid					
– 2002, final	–	–	–	(9,000)	(9,000)
– 2003, interim	–	–	–	(2,000)	(2,000)
At 30th June 2003	<u>13,646</u>	<u>17,137</u>	<u>40,836</u>	<u>14,802</u>	<u>86,421</u>
At 1st July 2003	13,646	17,137	40,836	14,802	86,421
Surplus on revaluation of non-trading investments	7,215	–	–	–	7,215
Reserves transferred to profit and loss account upon disposal of non-trading investments	(145)	–	–	–	(145)
Profit for the year	–	–	–	26,282	26,282
Dividends paid					
– 2003, final	–	–	–	(2,000)	(2,000)
– 2004, interim	–	–	–	(2,000)	(2,000)
At 30th June 2004	<u><u>20,716</u></u>	<u><u>17,137</u></u>	<u><u>40,836</u></u>	<u><u>37,084</u></u>	<u><u>115,773</u></u>

Retained earnings represent:

	Group	
	2004 HK\$'000	2003 <i>HK\$'000</i>
2004 & 2003 proposed final dividend	2,000	2,000
Others	35,084	12,802
	<u>37,084</u>	<u>14,802</u>

Notes to the Accounts

25. RESERVES (Continued)

	Company				
	Investment revaluation reserve <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Contributed surplus <i>(Note (b))</i> <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st July 2002	–	17,137	65,059	196	82,392
Deficit on revaluation of non-trading investments	(801)	–	–	–	(801)
Profit for the year	–	–	–	22,334	22,334
Dividends paid					
– 2002, final	–	–	–	(9,000)	(9,000)
– 2003, interim	–	–	–	(2,000)	(2,000)
At 30th June 2003	<u>(801)</u>	<u>17,137</u>	<u>65,059</u>	<u>11,530</u>	<u>92,925</u>
At 1st July 2003	(801)	17,137	65,059	11,530	92,925
Surplus on revaluation of non-trading investments	624	–	–	–	624
Reserves transferred to profit and loss account upon disposal of non-trading investments	(145)	–	–	–	(145)
Profit for the year	–	–	–	3,790	3,790
Dividends paid					
– 2003, final	–	–	–	(2,000)	(2,000)
– 2004, interim	–	–	–	(2,000)	(2,000)
At 30th June 2004	<u>(322)</u>	<u>17,137</u>	<u>65,059</u>	<u>11,320</u>	<u>93,194</u>

Retained earnings represent:

	Company	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
2004 & 2003 proposed final dividend	2,000	2,000
Others	9,320	9,530
	<u>11,320</u>	<u>11,530</u>

Notes to the Accounts

25. RESERVES *(Continued)*

(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.

(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 2004, in the opinion of the directors of the Company, the reserves of the Company available for distribution to shareholders amounted to HK\$76,057,000 (2003: HK\$75,788,000) 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% (2003: 17.5%).

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

	Group	
	2004 HK\$'000	2003 HK\$'000
At 1st July	(1,159)	175
Deferred taxation credited to profit and loss account <i>(Note 7)</i>	<u>(2,110)</u>	<u>(1,334)</u>
At 30th June	<u><u>(3,269)</u></u>	<u><u>(1,159)</u></u>

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. At 30th June 2004, the Group has unrecognised tax losses of HK\$16,710,000 (2003: HK\$27,256,000) to carry forward against future taxable income. These tax losses do not expire under the current tax legislation.

Notes to the Accounts

26. DEFERRED TAXATION *(Continued)*

The movement in deferred tax assets and liabilities (prior to offsetting) during the year is as follows:

Deferred tax liabilities

	Accelerated tax depreciation	
	2004 HK\$'000	2003 HK\$'000
At 1st July	122	178
Charged/(credited) to profit and loss account	20	(56)
At 30th June	<u>142</u>	<u>122</u>

Deferred tax assets

	Unused depreciation allowances		Unused tax losses		Total	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
At 1st July	13	3	1,268	-	1,281	3
(Charged)/credited to profit and loss account	(13)	10	2,143	1,268	2,130	1,278
At 30th June	<u>-</u>	<u>13</u>	<u>3,411</u>	<u>1,268</u>	<u>3,411</u>	<u>1,281</u>

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

	2004 HK\$'000	2003 HK\$'000
Deferred tax assets	(3,325)	(1,162)
Deferred tax liabilities	56	3
	<u>(3,269)</u>	<u>(1,159)</u>
The amounts shown in the balance sheet include the following:		
Deferred tax assets to be recovered after more than 12 months	<u>(2,695)</u>	<u>(590)</u>
Deferred tax liabilities to be settled after more than 12 months	<u>15</u>	<u>3</u>

Notes to the Accounts

26. DEFERRED TAXATION *(Continued)*

Deferred tax assets *(Continued)*

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

With the actual operating figures for the year 2004, the company is forecasted to generate assessable profits for the coming years.

According to the Hong Kong Statements of Standard Accounting Practice 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\$3,325,000 (2003: HK\$1,162,000) 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 on the accounts. 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 2004, the Group has future aggregate minimum lease payments under non-cancellable operating leases in respect of office premises and quarters provided to staff as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Not later than one year	8,493	8,698
Later than one year and not later than five years	5,642	6,029
	<u>14,135</u>	<u>14,727</u>

(ii) Capital commitments for property, plant and equipment

	Group	
	2004 HK\$'000	2003 HK\$'000
Contracted but not provided for	<u>503</u>	<u>–</u>

Notes to the Accounts

27. COMMITMENTS AND CONTINGENT LIABILITIES *(Continued)*

(iii) Other commitments

As at 30th June 2004, the Company has undertaken to guarantee the banking facilities of HK\$105.5 million (2003: HK\$100.5 million) granted to two of its subsidiaries. The banking facilities were applied in their normal courses of business activities.

(iv) 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 year end:

	Group	
	Contract/notional amounts	Fair value assets/(liabilities)
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 30th June 2004		
Equity index futures contracts – Trading	<u>6,760</u>	<u>(106)</u>
Currency futures contracts – Trading	<u>68,950</u>	<u>(61)</u>
Foreign exchange deferred trading – Hedging	<u>31,200</u>	<u>133</u>
At 30th June 2003		
Equity index futures contracts – Trading	<u>2,875</u>	<u>(11)</u>
Currency futures contracts – Trading	<u>61,348</u>	<u>(101)</u>
Foreign exchange deferred trading – Hedging	<u>50,687</u>	<u>(14)</u>

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 favorable (assets) or unfavorable (liabilities) as a result of fluctuations in market prices or foreign exchange rates relative to their terms.

Notes to the Accounts

27. COMMITMENTS AND CONTINGENT LIABILITIES *(Continued)*

(iv) 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 counterparty to a futures contract defaults on its obligation to perform under the terms of the contract.

(v) Contingent liabilities

A subsidiary of the Company has received a claim for compensation in the region of HK\$1.5 million to HK\$2.5 million, inclusive of interest and legal costs 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 accounts.

28. RELATED PARTY TRANSACTIONS

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the other party or exercise significant influence over the party in making financial and operation decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

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 arose in the ordinary course of the Group's business.

		Group	
	<i>Note</i>	2004 HK\$'000	2003 <i>HK\$'000</i>
Rental expenses on staff quarter	<i>(a)</i>	5,160	3,870
Depreciation	<i>(b)</i>	2,247	2,148
Management fee income	<i>(c)</i>	(960)	(960)
Operating leases on land and buildings	<i>(d)</i>	—	5,918
		—————	—————

- (a) 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 open market rentals. This tenancy agreement was terminated on 30th June 2004.

Notes to the Accounts

28. RELATED PARTY TRANSACTIONS *(Continued)*

- (b) The amount represented the depreciation charge paid to THKHL 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.
- (c) 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.
- (d) 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 open market rentals. This arrangement was terminated in May 2003.

29. APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 8th September 2004.