

## 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 Institute of Certified Public Accountants (“HKICPA”). 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.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1st January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31st December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

#### (b) Group accounting

##### (i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December 2004.

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 and goodwill (net of accumulated amortisation) on acquisition.

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 and accumulated impairment losses.

##### (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 securities 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 securities, together with any surplus/deficit transferred from the investment revaluation reserve, is dealt with in the income statement.

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

#### (ii) *Trading securities*

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

## 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 Schemes Ordinance. 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.

### 1. THE PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

#### (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, it 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.

A contingent asset is not recognised but is 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.

Brokerage commission income arising from the brokerage of mutual funds and insurance products is recognised when services rendered. 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 Group.

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

**1. THE PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**

**(m) Revenue recognition (Continued)**

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.

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

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

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

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

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

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

**(n) Finance costs**

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



## Notes to the Accounts

### 1. THE PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

#### (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 investment in associated companies and deferred tax assets. Segment liabilities comprise operating liabilities and exclude deferred tax liabilities. 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.

#### (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.

**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:

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Turnover		
Fees and commission	<b>77,254</b>	82,008
Net revenue from		
– foreign currency option trading	<b>7,693</b>	8,837
– bullion trading	<b>6,283</b>	2,917
Net premium income from		
– foreign currency option broking	<b>163</b>	1,635
– insurance broking	<b>368</b>	229
Swap interest and foreign exchange trading revenue	<b>67,325</b>	38,548
Interest income	<b>8,219</b>	6,182
Underwriting commission	<b>396</b>	447
Management fee and subscription fee income	<b>2,030</b>	989
	<b>169,731</b>	141,792
Other revenues		
Dividend income from listed securities	<b>281</b>	89
Other income including exchange gains	<b>2,978</b>	4,013
	<b>3,259</b>	4,102
Total revenues	<b>172,990</b>	145,894

### 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 broking 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 and providing advisory services on securities investment and discretionary fund management
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.

2. TURNOVER, REVENUE AND SEGMENT INFORMATION (CONTINUED)

Primary reporting format – Business Segments

	Leveraged foreign exchange trading/ broking 2004 HK\$'000	Securities broking 2004 HK\$'000	Commodities and futures broking 2004 HK\$'000	Corporate finance 2004 HK\$'000	Asset management 2004 HK\$'000	Financial planning/ insurance broking 2004 HK\$'000	Precious metal contracts trading/ broking 2004 HK\$'000	Unallocated 2004 HK\$'000	Total 2004 HK\$'000
Turnover	95,438	24,451	9,591	6,149	1,264	23,097	8,923	818	169,731
Segment results	25,703	(1,262)	(1,261)	(794)	(1)	(1,809)	3,420	(3,578)	20,418
Operating profit									20,418
Finance costs									(1,542)
									18,876
Share of profits of associated companies	4,749		5,552					1,745	12,046
Profits before taxation									30,922
Taxation payable									(8,132)
Profits after taxation									22,790
Minority interests									371
Profits attributable to shareholders									23,161
Segment assets	151,585	126,033	22,698	9,361	4,704	18,696	3,083	19,706	355,866
Interests in associated companies	5,069							7,376	12,445
Deferred tax assets									1,796
Total assets									370,107
Segment liabilities	8,635	73,088	12,968	496	158	3,564	(6,300)	1,568	94,177
Deferred tax liabilities									931
Total liabilities									95,108
Capital expenditure	1,059	312	10	–	3	946	4	3,085	5,419
Impairment charge	–	913	406	–	–	–	–	–	1,319
Depreciation	1,129	1,548	40	11	2	153	16	827	3,726
Amortisation charge	–	332	150	–	–	–	60	667	1,209
Other non-cash expenses	132	824	33	1,312	–	56	–	–	2,357

## Notes to the Accounts

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

#### Primary reporting format – Business Segments (Continued)

	Leveraged foreign exchange trading/ broking 2003 HK\$'000	Securities broking 2003 HK\$'000	Commodities 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	545		682					402	1,629
Profits before taxation									4,448
Taxation payable									(1,570)
Profits attributable to shareholders									2,878
Segment assets	134,083	122,957	20,715	14,855	4,123	13,098	6,927	30,349	347,107
Interests in associated companies	1,731		1,738					6,065	9,534
Deferred tax assets									966
Total assets									357,607
Segment liabilities	2,959	81,962	9,724	230	73	3,710	367	1,410	100,435
Deferred tax liabilities									966
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

**2. TURNOVER, REVENUE AND SEGMENT INFORMATION (CONTINUED)****Secondary reporting format – Geographical Segments**

	Turnover		Total assets		Capital expenditure	
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	116,405	104,556	253,361	281,982	4,352	1,947
China	21,052	21,587	6,755	1,261	157	108
New Zealand	21,248	15,192	–	–	–	–
Other countries	11,026	457	95,750	63,864	910	21
	<b>169,731</b>	141,792	<b>355,866</b>	347,107	<b>5,419</b>	2,076
Interests in associated companies			12,445	9,534		
Deferred tax assets			1,796	966		
Total assets			<b>370,107</b>	357,607		

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

**3. STAFF COSTS**

	2004	2003
	HK\$'000	HK\$'000
Salaries and allowances	41,823	39,670
Defined contribution plans (Note 10)	1,068	1,220
	<b>42,891</b>	40,890

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

## Notes to the Accounts

### 4. OTHER OPERATING EXPENSES

	2004 HK\$'000	2003 HK\$'000
Advertising and promotion	2,278	2,124
Amortisation cost of trading rights and membership	542	542
Amortisation of goodwill	667	182
Auditors' remuneration	1,550	941
Bad debts written off	1,423	251
Bank charges	317	255
Communication expenses	1,404	1,476
Depreciation of fixed assets	3,726	3,401
Equipment rental expenses	5,451	5,529
Exchange loss	19	3
Impairment charge		
– trading right	1,319	–
– goodwill	–	171
Legal and professional fee	3,006	1,115
Loss on disposal of fixed assets	162	739
Miscellaneous expenses	9,709	6,299
Printing and stationery	1,395	1,216
Provision for doubtful debts	645	–
Repairs and maintenance	2,452	2,878
Travelling expenses	3,027	1,383
	<b>39,092</b>	<b>28,505</b>

### 5. FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Interest on bank overdrafts	956	615
Interest on bank loans	584	127
Interest on other loans	2	–
	<b>1,542</b>	<b>742</b>

## 6. 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. 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:

	2004 HK\$'000	2003 HK\$'000
Current taxation:		
– Hong Kong profits tax	4,811	1,117
– Overseas taxation	99	23
– Under provisions for taxation	7	172
Deferred taxation relating to the origination and reversal of temporary differences	(591)	(6)
	<b>4,326</b>	1,306
Share of taxation attributable to associated companies	<b>3,806</b>	264
Taxation charges	<b>8,132</b>	1,570

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

	2004 HK\$'000	2003 HK\$'000
Profits before taxation	<b>30,922</b>	4,448
Calculated at a taxation rate of 17.5% (2003: 17.5%)	<b>5,411</b>	778
Effect of different taxation rates in other countries	<b>46</b>	67
Tax effect of income not subject to taxation	<b>(788)</b>	(968)
Tax effect of expenses not deductible for taxation purposes	<b>287</b>	1,699
Utilisation of previously unrecognised tax losses	<b>(46)</b>	(422)
Deferred taxation	<b>(591)</b>	(6)
Under provisions for taxation	<b>7</b>	172
Others	<b>–</b>	(14)
	<b>4,326</b>	1,306
Share of associated companies' taxation	<b>3,806</b>	264
Taxation charges	<b>8,132</b>	1,570



## Notes to the Accounts

### 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\$7,570,798 (2003: HK\$19,099,219).

### 8. DIVIDENDS

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
Final, proposed, of HK\$0.025 (2003: HK\$0.025) per ordinary share	<b>9,778</b>	9,778

At a meeting held on 7th April 2005, 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 2005.

### 9. EARNINGS PER SHARE

The calculation of basic earnings per share and diluted earnings per share are based on the Group's profit attributable to shareholders of HK\$23,160,933 (2003: HK\$2,877,749) and the weighted average number of 391,130,000 (2003: 391,130,000) ordinary shares in issue during the year.

The diluted earnings per share for the year 2004 is calculated based on 391,668,991 (2003: 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 538,991 (2003: 228,263) ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

### 10. DEFINED CONTRIBUTION PLANS - MPF SCHEME

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

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
Gross employer's contributions	<b>1,229</b>	1,220
Less: Forfeited contributions utilised to offset employer's contribution for the year	<b>(161)</b>	–
Net employer's contributions charged to income statement	<b>1,068</b>	1,220

**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:

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Fees	<b>631</b>	441
Other emoluments:		
Basic salaries, other allowances, share options and benefits in kind	<b>6,086</b>	5,990
Bonus	<b>820</b>	–
Defined contribution plans	<b>82</b>	72
	<b>7,619</b>	6,503

Directors' fees disclosed above include HK\$447,391 (2003: HK\$340,714) paid to independent non-executive directors and HK\$183,517 (2003: HK\$100,000) paid to non-executive directors.

The emoluments of the directors fell within the following bands:

Emolument bands	<b>Number of directors</b>	
	<b>2004</b>	2003
HK\$Nil – HK\$1,000,000	<b>11</b>	8
HK\$1,000,001 – HK\$1,500,000	<b>2</b>	2
HK\$1,500,001 – HK\$2,000,000	<b>1</b>	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 (2003: 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. Total management bonus paid to the directors during the year was HK\$820,000 (2003: nil).

## 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 (2003: four) whose emoluments are reflected in the analysis presented above. The emolument payable to the remaining one (2003: one) individual during the year is as follows:

	2004 HK\$'000	2003 HK\$'000
Basic salaries, other allowances, share options and benefits in kind	960	1,141
Bonus	35	–
Defined contribution plans	12	12
	<b>1,007</b>	1,153

The emoluments fell within the following bands:

Emolument bands	Number of individuals	
	2004	2003
HK\$Nil – HK\$1,000,000	–	–
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$1,500,001 – HK\$2,000,000	–	–

## 12. INTANGIBLE ASSETS

	Group				Total HK\$'000
	Stock Exchange trading rights HK\$'000	Futures Exchange trading right HK\$'000	Chinese Gold & Silver Exchange Society HK\$'000	Goodwill on acquisition of subsidiaries HK\$'000	
Cost					
At 1st January 2004	6,653	1,500	300	–	8,453
Goodwill on acquisition	–	–	–	1,087	1,087
At 31st December 2004	6,653	1,500	300	1,087	9,540
Accumulated amortisation					
At 1st January 2004	4,495	538	60	–	5,093
Amortisation charge	332	150	60	302	844
At 31st December 2004	4,827	688	120	302	5,937
Accumulated impairment losses					
Impairment loss for the year and at 31st December 2004	913	406	–	–	1,319
Net book value					
At 31st December 2004	913	406	180	785	2,284
At 31st December 2003	2,158	962	240	–	3,360

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

## Notes to the Accounts

### 13. FIXED ASSETS

	Group				Total HK\$'000
	Leasehold improvements HK\$'000	Furniture & fixtures HK\$'000	Office & computer equipments HK\$'000	Motor vehicles HK\$'000	
Cost					
At 1st January 2004	559	915	12,095	1,684	15,253
Additions	1,196	989	3,234	–	5,419
Disposals	(116)	(397)	(440)	–	(953)
Exchange difference	–	–	(3)	–	(3)
At 31st December 2004	1,639	1,507	14,886	1,684	19,716
Accumulated depreciation					
At 1st January 2004	521	550	6,069	1,001	8,141
Charge for the year	345	291	2,695	395	3,726
Disposals	(116)	(315)	(302)	–	(733)
Exchange difference	3	–	(1)	–	2
At 31st December 2004	753	526	8,461	1,396	11,136
Net book value					
At 31st December 2004	886	981	6,425	288	8,580
At 31st December 2003	38	365	6,026	683	7,112

13. FIXED ASSETS (CONTINUED)

	Company		Total HK\$'000
	Furniture & fixtures HK\$'000	Office & computer equipments HK\$'000	
Cost			
At 1st January 2004	151	63	214
Additions	3	3	6
Write-off	–	(28)	(28)
At 31st December 2004	154	38	192
Accumulated depreciation			
At 1st January 2004	32	14	46
Charge for the year	31	9	40
Write-back	–	(8)	(8)
At 31st December 2004	63	15	78
Net book value			
At 31st December 2004	91	23	114
At 31st December 2003	119	49	168

14. OTHER ASSETS

	Group	
	2004 HK\$'000	2003 HK\$'000
Stock Exchange stamp duty deposit	75	30
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	100	180
Statutory deposits and deposits with the Hong Kong Futures Exchange Limited (“HKFE”)	1,961	1,786
Contributions in cash to the Compensation Fund of HKFE	–	100
Statutory deposits with the Securities and Futures Commission	200	200
Reserve fund deposit with the SEHK Options Clearing House Limited	1,512	1,500
	<b>4,050</b>	<b>3,998</b>

## Notes to the Accounts

### 15. INVESTMENT IN SUBSIDIARIES

	Company	
	2004 HK\$'000	2003 HK\$'000
Investment at cost, unlisted shares ( <i>Note (b)</i> )	218,130	219,527
Amounts due from subsidiaries ( <i>Note (a)</i> )	66,825	44,723
Amount due to a subsidiary ( <i>Note (a)</i> )	(5,000)	–
	<b>279,955</b>	<b>264,250</b>

- (a) The amounts due from/(to) subsidiaries were unsecured, interest free and had no fixed term for repayment.
- (b) Pursuant to the warranty clause of a sale and purchase agreement entered by the Company and Hantec Holdings Limited (“HHL”), HHL remitted HK\$1,397,694 to the Company for uncollectable accounts receivable. Such remittance was credited against the cost of investment in a subsidiary.
- (c) The following is a list of subsidiaries at 31st December 2004:

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”)	Hong Kong	Securities broking and margin financing services in Hong Kong	20,000,100 ordinary shares of HK\$1 each, and 50,000,000 non-voting deferred shares of HK\$1 each	–	100%

## 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
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%
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	6,000,100 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 <sup>#</sup> ("康景")	People's Republic of China	Provision of consultation services in the People's Republic of China	US\$150,000 registered and paid-up capital	–	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
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%
Hantec Wealth Management Advisor Limited ("HWMAL")	Hong Kong	Financial planning and insurance broking in Hong Kong	500,000 ordinary shares of HK\$1 each	–	100%
Hantec Taiwan Investments Limited ("HTIL")	Hong Kong	Investment holding in Hong Kong	10,000 ordinary shares of HK\$1 each	–	100%
富林國際證券投資顧問股份有限公司# ("富林")	Taiwan	Provision of wealth management, investment advisory and consultancy services in Taiwan	5,000,000 ordinary shares of NT\$10 each	–	70%
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%	–
Hantec Strategic Plan (HK) Limited# ("HSPL") (Formerly known as Strategic Plan Limited)	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 4.72% (2003: 0.37%) of the Group's net assets.

## 16. INTERESTS IN ASSOCIATED COMPANIES

	Group	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	11,897	8,621
Goodwill on acquisition of an associated company less amortisation	548	913
	<b>12,445</b>	9,534
Investment at cost, unlisted shares	<b>7,296</b>	10,760

The following is a list of the principal associated companies at 31st December 2004:

Name	Place of incorporation and operation	Principal activities	Particulars of issued shares held	Interest Held indirectly
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%

*Note:* During the year, the Group disposed 10% of the issued share capital of Fuji Hantec Forex Japan Company Limited ("FHF"), at a consideration of HK\$2.3 million to an independent third party. The disposal was completed on 5th November 2004. Since then, the Group's shareholding in FHF reduced to 15% and lost significant influence on FHF. Equity accounting on FHF ceased upon the completion of the disposal.

## Notes to the Accounts

### 17. INVESTMENT IN SECURITIES

#### (a) Trading securities

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Equity securities, at market value:				
– Listed in Hong Kong	<b>708</b>	681	<b>708</b>	681

#### (b) Non-trading securities

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Equity securities:				
– Listed in Hong Kong, at market value	–	1,685	–	–
– Unlisted equity securities	<b>3,267</b>	–	–	–
	<b>3,267</b>	1,685	–	–

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

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Unlisted in overseas:				
– 10-year callable notes, at amortised cost	<b>15,546</b>	15,541	–	–

## 18. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Trade receivables from clients	36,143	46,207	–	–
Less: provision for doubtful debts	(6,430)	(5,735)	–	–
Margin finance loans ( <i>Note (c)</i> )	72,495	46,317	–	–
Less: provision for doubtful debts	(4,745)	(4,795)	–	–
Margin and other trade related deposits with brokers and financial institutions ( <i>Note (b)</i> )	88,424	52,128	–	–
Trade receivables from clearing houses	7,426	16,852	–	–
<b>Total trade receivables</b>	<b>193,313</b>	<b>150,974</b>	<b>–</b>	<b>–</b>
Rental and utilities deposits	4,248	5,330	62	122
Prepayments and other receivables	3,365	2,590	1,772	1,246
<b>Total trade and other receivables</b>	<b>200,926</b>	<b>158,894</b>	<b>1,834</b>	<b>1,368</b>

(a) As at 31st December 2004, the aging analysis of the trade receivables was as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Current	193,163	150,044
30 – 60 days	60	64
Over 60 days	11,265	11,396
<b>Less: Provision for doubtful debt</b>	<b>(11,175)</b>	<b>(10,530)</b>
	<b>193,313</b>	<b>150,974</b>

### 18. TRADE AND OTHER RECEIVABLES (CONTINUED)

- (b) The Group undertakes foreign exchange transactions, precious metal contracts and executes client trades on overseas commodities and futures 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 2004 and 2003 include margin deposits and floating profits in respect of transactions and open positions in leveraged foreign exchange, precious metal contracts and commodities and futures trading with recognised counterparties and brokers and are considered current. Trade receivables from cash securities trading clients is resulted from amounts due from clients on outstanding trades not yet settled, normally within two to three days after the execution of the trades.
- (c) The margin clients of the securities broking 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 2004, the designated accounts with SEOCH and HKFECC not otherwise dealt with in these accounts amounted to HK\$160,169 (2003: HK\$442,303) and HK\$7,776,847 (2003: HK\$8,280,960) respectively.

## 19. BANK BALANCES AND CASH

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Cash in hand	316	265	72	72
Bank balances				
– pledged	23,015	15,816	–	–
– general accounts	96,968	139,370	4,282	22,199
	119,983	155,186	4,282	22,199
	120,299	155,451	4,354	22,271
By maturity :				
Bank balances				
– Current and savings accounts	117,499	128,416	4,282	22,199
– Fixed deposits (maturing within three months)	2,484	26,770	–	–
	119,983	155,186	4,282	22,199

As at 31st December 2004, bank deposits amounting to HK\$10,530,779 (2003: HK\$10,515,010) have been pledged to a bank for banking facilities to the extent of HK\$26 million (2003: HK\$26 million) in securities broking of the Group. In addition, bank deposits amounting to HK\$12,483,995 (2003: HK\$5,300,649) have been pledged to a financial institution for trading facilities in leveraged foreign exchange broking of the Group.

As at 31st December 2004, included in the aggregate banking facilities of HK\$130 million (2003: HK\$150 million) granted to the Group, HK\$118 million (2003: HK\$138 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\$20,507,362 (2003: HK\$32,442,000) 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 2004, segregated trust accounts not otherwise dealt with in these accounts amounted to HK\$221,396,256 (2003: HK\$103,494,503).

## Notes to the Accounts

### 20. TRADE AND OTHER PAYABLES

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Trade payable to securities trading clients	39,624	46,941	–	–
Margin and other deposits payable to other clients	4,637	9,459	–	–
Trade payable to brokers and clearing houses arising from the ordinary course of business of broking in securities, commodities and futures contracts and leveraged foreign exchange trading	839	1,548	–	–
Total trade payables	45,100	57,948	–	–
Accruals and other payables	14,588	9,741	852	418
Total trade and other payables	59,688	67,689	852	418

The settlement terms of trade payables from the ordinary course of business of broking in securities payable to clearing houses and securities trading clients ranging from two to three 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, commodities and futures contracts.

Other trade payables are aged within 30 days.

21. SHARE CAPITAL

	2004		2003	
	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 and at 31st December	391,130	39,113	391,130	39,113

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	
	2004 '000	2003 '000
At the beginning of the year	14,250	14,500
Granted	-	-
Exercised	-	-
Lapsed	(300)	(250)
At the end of the year	13,950	14,250

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



## Notes to the Accounts

### 21. SHARE CAPITAL (CONTINUED)

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

Expiry Date	Exercise price	Number of options		Vested percentages	
		2004	2003	2004	2003
Directors					
– 1st February 2006	0.6600	<b>3,350,000</b>	1,700,000	<b>100%</b>	100%
– 8th August 2006	0.6128	<b>3,300,000</b>	2,600,000	<b>100%</b>	100%
		<b>6,650,000</b>	4,300,000		
Other employees					
– 1st February 2006	0.6600	<b>4,250,000</b>	6,100,000	<b>100%</b>	100%
– 8th August 2006	0.6128	<b>3,050,000</b>	3,850,000	<b>100%</b>	100%
		<b>7,300,000</b>	9,950,000		
		<b>13,950,000</b>	14,250,000		

An option covering 200,000 (2003: 200,000) ordinary shares at HK\$0.1 each exercisable at HK\$0.66 and 100,000 (2003: 50,000) ordinary shares at HK\$0.1 each exercisable at HK\$0.6128 were lapsed as a result of resignation of a grantee during the year.

## 22. RESERVES

	Group					
	Share premium HK\$'000	Capital reserves HK\$'000	Investment	Retained earnings HK\$'000	Exchange differences HK\$'000	Total HK\$'000
			revaluation reserves HK\$'000			
At 1st January 2003	89,785	100,189	(140)	23,363	–	213,197
Surplus 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
Reserves transferred to income statement upon disposal of investment securities held for non-trading purposes	–	–	(565)	–	–	(565)
Profit for the year	–	–	–	23,161	–	23,161
Dividend	–	–	–	(9,778)	–	(9,778)
Exchange difference	–	–	–	–	1,340	1,340
Reduction in cost of investment in a subsidiary	–	–	–	1,397	–	1,397
At 31st December 2004	89,785	100,189	–	41,021	1,653	232,648
Company and subsidiaries	89,785	100,189	–	37,189	336	227,499
Associated companies	–	–	–	3,832	1,317	5,149
	89,785	100,189	–	41,021	1,653	232,648
Representing :						
2004 final dividend proposed				9,778		
Others				31,243		
Retained earnings as at 31st December 2004				41,021		
At 31st December 2003						
Company and subsidiaries	89,785	100,189	565	28,381	313	219,233
Associated company	–	–	–	(2,140)	–	(2,140)
	89,785	100,189	565	26,241	313	217,093

## 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 2003	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
Profit for the year	–	7,571	–	7,571
Dividend	–	(9,778)	–	(9,778)
At 31st December 2004	89,785	24,114	133,101	247,000

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

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Representing:				
Final dividend proposed	9,778	9,778	9,778	9,778
Others	31,243	16,463	14,336	16,543
Retained earnings as at 31st December	41,021	26,241	24,114	26,321

(b) **Capital reserves**

The capital reserves of the Group represents the difference between the nominal value of the shares issued by the Company in exchange for the nominal value of the deferred share capital of a subsidiary acquired in 2000.

(c) **Contributed surplus**

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

(d) **Investment revaluation reserve**

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

**22. RESERVES (CONTINUED)**

**(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.

**23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**

**(a) Reconciliation of operating profit to net cash outflow from operating activities:**

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Operating profit before taxation	<b>18,876</b>	2,819
Depreciation of fixed assets	<b>3,726</b>	3,401
Amortisation cost of trading rights and membership	<b>542</b>	542
Amortisation of goodwill	<b>667</b>	182
Amortisation of (discount)/premium for investment in held-to-maturity securities	<b>(5)</b>	59
Impairment charge		
– trading right	<b>1,319</b>	–
– goodwill	<b>–</b>	171
Interest expenses	<b>1,542</b>	742
Dividend income from listed securities	<b>(281)</b>	(89)
Loss on disposal of fixed assets	<b>162</b>	739
Profit on disposal of interests in an associated company	<b>(155)</b>	–
Realised gain on listed securities	<b>(887)</b>	(83)
Unrealised gain on investment in trading securities	<b>–</b>	(289)
Written back of provision for doubtful debt	<b>–</b>	(1,008)
Bad debts written off	<b>1,423</b>	251
Provision for doubtful debts and clawback	<b>699</b>	–
Unrealised profit/(loss) with associated companies	<b>225</b>	(744)
Increase in pledged deposits	<b>(7,199)</b>	(5,225)
Operating profit before working capital changes	<b>20,654</b>	1,468
Increase in other assets	<b>(52)</b>	(301)
(Increase)/decrease in trading securities	<b>(27)</b>	33
Increase in trade and other receivables	<b>(35,037)</b>	(31,997)
(Decrease)/increase in trade and other payables	<b>(6,840)</b>	19,449
Cash outflow generated from operations	<b>(21,302)</b>	(11,348)
Hong Kong profits tax paid (net)	<b>(1,060)</b>	(2,906)
Net cash outflow generated from operations	<b>(22,362)</b>	(14,254)

## 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	
	2004 HK\$'000	2003 HK\$'000
As at 1st January	128,898	128,898
Repurchase of shares	–	–
As at 31st December	128,898	128,898

#### (c) Purchase of subsidiaries:

	2004 HK\$'000	2003 HK\$'000
Net assets acquired		
Fixed assets	–	103
Trade and other receivables	6,344	535
Bank balances and cash - general accounts	1,678	919
Deferred tax assets	183	–
Trade and other payables	(107)	(1,320)
Taxation payables	–	(8)
	8,098	229
Goodwill	1,087	171
	9,185	400
Satisfied by :		
Cash	9,185	400

The subsidiaries acquired during the year contributed revenues of HK\$705,843 (2003: HK\$467,579) and operating losses of HK\$1,633,053 (2003: 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 2004.

**23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)****(d) Analysis of the net cash (outflow)/inflow in respect of the purchase of subsidiaries:**

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Cash consideration	<b>(9,185)</b>	(400)
Bank balances and cash in hand acquired	<b>2,398</b>	919
Net cash (outflow)/inflow in respect of the purchase of subsidiaries	<b>(6,787)</b>	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% (2003: 17.5%).

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

	<b>Group</b>		<b>Company</b>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
At 1st January	–	6	–	–
Acquisition of a subsidiary	<b>(274)</b>	–	–	–
Deferred taxation credited to income statement ( <i>Note 6</i> )	<b>(591)</b>	(6)	–	–
At 31st December	<b>(865)</b>	–	–	–

Deferred 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\$46,887,442 (2003: HK\$34,837,236) 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:

	<b>Group</b>		
	<b>Accelerated tax depreciation</b>	<b>Tax losses</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000
At 1st January 2003	1,169	(1,163)	6
(Credited)/charged to income statement	(203)	197	(6)
At 31st December 2003	966	(966)	–
Acquisition of a subsidiary	–	(274)	(274)
Credited to income statement	(35)	(556)	(591)
At 31st December 2004	931	(1,796)	(865)

  

	<b>Company</b>		
	<b>Accelerated tax depreciation</b>	<b>Tax losses</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000
At 1st January 2003 and at 31st December 2003	–	–	–
Charged/(credited) to income statement	15	(15)	–
At 31st December 2004	15	(15)	–

**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 2004 and 2003.

- (b) As at 31st December 2004, the Company had issued corporate guarantees to certain banks for credit facilities up to an amount of HK\$118,000,000 (2003: HK\$138,000,000) granted to a subsidiary which engages in securities broking. In addition, the Company had issued corporate guarantees to certain financial institutions for foreign exchange trading and precious metals contracts trading facilities granted to subsidiaries which engage in leveraged foreign exchange trading and precious metals trading. The guarantee amounts vary and are subject to the volume of contracts traded with the financial institutions.

**26. LEASE COMMITMENTS**

At 31st December 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings		Others	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Not later than one year	5,213	6,232	400	—
Later than one year and not later than five years	6,945	10,293	607	—
	<b>12,158</b>	16,525	<b>1,007</b>	—



## Notes to the Accounts

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

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
Total assets in foreign currencies included in the balance sheet	<b>155,218</b>	130,284
Total liabilities in foreign currencies included in the balance sheet	<b>2,521</b>	1,635
Total commitments to purchase foreign currencies under leveraged foreign exchange trading contracts	<b>3,493,986</b>	1,130,450
Total commitments to sell foreign currencies under leveraged foreign exchange trading contracts	<b>3,396,436</b>	1,309,031
Total commitments to purchase foreign currencies under option contracts	<b>53,137</b>	41,118
Total commitments to sell foreign currencies under option contracts	<b>53,137</b>	393,494

*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.

**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:

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
Net premium (expenses)/income from foreign currency option trading and broking ( <i>Note (a)(ii)</i> )	<b>(7)</b>	11,534
Commission income received ( <i>Note (a)</i> )	–	131
Management fee income ( <i>Note (b)</i> )	–	407
Placing commission received ( <i>Note (c)</i> )	–	294
Financial advisory service fee received ( <i>Note (d)</i> )	<b>702</b>	300
Financial advisory service fee paid ( <i>Note (e)</i> )	<b>(936)</b>	–
Miscellaneous expenses ( <i>Note (f)</i> )	<b>(694)</b>	–

(a) During the year, the associated companies in New Zealand and Japan transacted leveraged foreign exchange trading and precious metal trading through the subsidiaries of the Group. In 2003, other than these transactions, the associated companies also transacted securities trading and commodities trading through the subsidiaries of the Group.

(i) For leveraged foreign exchange transactions and precious metal trading 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\$126,929 million (2003: HK\$48,406 million) for leveraged foreign exchange trading contracts and HK\$187 million (2003: HK\$70 million) for precious metal trading contracts out of the total aggregate notional amount of the transactions of HK\$585,476 million (2003: HK\$340,556 million) and HK\$17,176 million (2003: HK\$16,427 million) respectively entered by the Group during the year.

(ii) Commission and option premium income were charged to these transactions on normal commercial terms. During the year, no commission (2003: HK\$131,245) was charged on the transactions and net option premium expenses of HK\$7,067 (2003: income of HK\$11,533,668) were contributed to turnover of the Group.

## Notes to the Accounts

### 28. RELATED PARTY TRANSACTIONS

- (b) In 2003, the management fee totaling of HK\$407,205 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) In 2003, the commission for placement of HK\$294,375 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 services fee of HK\$702,000 (2003: nil) was charged by the Group to the associated company in New Zealand, for providing certain corporate financial advisory services. In 2003, financial advisory service fee of HK\$300,000 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.
- (e) During the year, the associated company in New Zealand provided advisory services to the Group and received HK\$936,000 (2003: nil) as advisory fee. The service fee was charged at normal commercial terms.
- (f) During the year, the Group incurred HK\$694,000 (2003: nil) for printing promotion materials and purchasing Chinese paintings as souvenir from Tsi Ya Chai Co. Ltd., a company in which the Chairman of the Group held 70% equity interest. The amount was charged at normal commercial terms.
- (g) 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 Company 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.
- (h) 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**

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Contracted but not provided for	<b>585</b>	1,827

**30. ULTIMATE HOLDING COMPANY**

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

**31. APPROVAL OF ACCOUNTS**

The accounts were approved by the board of directors on 7th April 2005.