Notes to the Accounts

1. BASIS OF PREPARATION

The audited 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, trading securities and derivative financial instruments are stated at fair value.

The accounting policies and methods of computation used in the preparation of the audited accounts are consistent with those used in the annual accounts for the year ended 30 June 2004.

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 30 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 Stock Exchange of Hong Kong Limited ("SEHK") and two trading rights on the Hong Kong Futures Exchange Limited ("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.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) Investments

Non-trading investments

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

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

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 trading securities are recognised in the profit and loss account. Profits or losses on disposal of trading securities, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(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.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(j) Provisions and contingent liabilities *(Continued)*

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.

Commission income on sale of unit trusts and insurance-linked products is recognised on an accrual basis 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.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(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.

(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.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(o) Income tax

Income tax for the year comprises current and deferred tax. Income tax is recognised in the profit and loss account 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.

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.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(r) Off-balance sheet financial instruments

Off-balance sheet financial instruments include listed equity index futures contracts, listed currency futures contracts, listed commodity 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, currency and commodity 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, currency and commodity 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 "other receivables". Unrealised losses on transactions which are marked to market are included in "other payables".

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.

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

(i) the transaction must be reasonably expected to match or eliminate a significant portion of the risk inherent in the position being hedged; and

(ii) there is adequate documentary evidence of the intent to hedge at the outset of the transaction.

(s) Recently issued accounting standards

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 1 January 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 30 June 2005.

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(s) Recently issued accounting standards *(Continued)*

The Group is in the process of making an assessment of the impact of these new HKFRSs, and has so far concluded that the following HKFRSs will have the following significant financial or presentation effects on the Group's accounts upon adoption in the areas as briefly described below:

1. HKFRS 2 "Share-based payment"

Under HKFRS 2 "Share-based payment", the Group will be required to determine the fair value of all share-based payments to employees and directors as remuneration and recognise as expenses in the profit and loss account. This treatment will result in a reduction in profit as such items have not been recognised as expenses under the current accounting policy. Under the specific transitional provisions of HKFRS 2, this treatment will apply to equity-settled share-based payment transactions where shares, share options or other equity instruments were granted after 7 November 2002 and had not vested on 1 January 2005 and to liabilities arising from share-based payment transactions existing on 1 January 2005.

2. HKAS 39 "Financial instruments: Recognition and Measurement"

Classification of investments

The current accounting policy on investments is set out in Note 2(f) above. Upon adoption of HKAS 39, all investments of the Group are classified into one of the following two categories:

i) at fair value through profit or loss securities are measured at fair value with changes in fair value recognised in the profit and loss account;

ii) available-for-sale securities are measured at fair value, with changes in fair value reported in the equity reserve directly.

Upon first-time adoption of HKAS 39, the Group will reclassify its investment securities into the above two categories. Majority of the Group's investments are classified as available-for-sale. The changes in fair value of available-for-sale securities will cause volatility to the equity reserve.

Derivatives

The current accounting policy on derivatives is set out in Note 2(r) above. Upon adoption of HKAS 39, all derivatives are recognised separately as either financial assets or liabilities in the balance sheet and measured at fair value. The accounting for changes in the fair value of derivatives are recognised as follows:

For a derivative designated as fair value hedge, the gain or loss is recognised in the profit and loss account in the period of change together with the associated loss or gain on the hedged item;

Notes to the Accounts

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(s) Recently issued accounting standards *(Continued)*

2. *HKAS 39 "Financial instruments: Recognition and Measurement" (Continued)*

Derivatives *(Continued)*

For a derivative designated as cash flow hedge, the gain or loss on the derivative associated with the effective portion of the hedge is initially recognised in equity reserve and subsequently released into the profit and loss account in line with the recognition of the element of the recognised asset or liability which is being hedged. Any ineffective portion is recognised in the profit and loss account as it arises; and

For other derivatives (including for dealing purpose and for economic hedging purpose which do not qualify for hedge accounting), the gain or loss is recognised in the profit and loss account.

Volatility in income will become higher due to stricter requirements to qualify for hedge accounting treatment. The volatility in equity reserve will also increase due to change in fair value of derivatives designated as cash flow hedges.

Provisions for bad and doubtful debts

The current accounting policy on accounts receivable and loans and advances provisions is set out in Note 2(g). Upon adoption of HKAS 39, accounts receivable and loans and advances are measured by amortised cost where the carrying amount of the asset is computed by discounting the future cash flows to the present value using the original effective interest rate. Where objective evidence of impairment exists, the recoverable amount of an asset is calculated by discounting the future cash flows to the present value using the original effective interest rate taking into account the value of collateral, if any. The difference between the carrying amount and the recoverable amount of the asset is recognised as impairment.

All changes in the accounting policies will be reported by the Group in accordance with the transitional provisions in the respective standards.

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:

- Tokyo Grain Exchange ("TGE");
- Tokyo Commodity Exchange ("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.

Notes to the Accounts

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

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

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

	2005	2004
	HK$'000	*HK$'000*
TURNOVER		
Brokerage commission:		
– commodity futures contracts on TGE and TOCOM	**37,539**	77,303
– commodity and currency futures contracts on other overseas exchanges	**14,594**	21,499
– index futures contracts on the HKFE	**139**	431
– securities dealing	**5,703**	8,821
Advisory, wealth management and insurance agency fees:		
– corporate finance and advisory	**1,812**	715
– commission on sale of unit trust and insurance-linked products	**8,907**	2,439
Interest income:		
– securities margin financing	**3,616**	3,589
– loans and advances	**3,515**	1,844
– deposits with clearing houses and brokers	**56**	–
– bank deposits and others	**874**	754
Proprietary trading in listed securities	**(202)**	–
Proprietary trading in futures contracts:		
– on the HKFE	**(305)**	1,449
– on overseas exchanges	**1,448**	13,529
	77,696	132,373
OTHER REVENUES		
Dividend income	**1,246**	2,978
Exchange gains	**866**	2,219
Management fee income *(Note 30(b))*	**960**	960
Loan arrangement fee income	**357**	580
Other income	**239**	288
	3,668	7,025
Total turnover and revenues	**81,364**	139,398

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, wealth management and insurance agency 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
Wealth management and insurance agency 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 listed securities on the SEHK, listed equity index futures contracts on the HKFE and listed currency and commodity 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:

	2005								
	Futures broking HK$'000	Securities broking HK$'000	Securities margin financing HK$'000	Corporate finance HK$'000	Wealth management and insurance agency services HK$'000	Money lending HK$'000	Proprietary trading HK$'000	Other operations HK$'000	Consolidated HK$'000
TURNOVER	52,968	5,826	3,694	1,833	8,914	3,515	941	5	77,696
RESULTS	(11,053)	1,080	724	(4,042)	(1,308)	3,531	(110)	(309)	(11,487)
Finance costs									(361)
Taxation									737
Minority interests									55
Loss attributable to shareholders									(11,056)
ASSETS									
Segment assets	60,371	15,237	40,043	4,741	2,822	14,712	15,481	20,224	173,631
Taxation									3,286
Total assets									176,917
LIABILITIES									
Segment liabilities	24,437	4,437	817	210	1,343	83	–	218	31,545
Taxation									17,176
Total liabilities									48,721
Capital expenditure	1,708	287	181	110	–	–	–	70	2,356
Depreciation	1,071	332	211	86	68	–	–	105	1,873
Amortisation	–	60	–	–	–	–	–	–	60

Notes to the Accounts

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

Business segments *(Continued)*

	2004								
	Futures broking HK$'000	Securities broking HK$'000	Securities margin financing HK$'000	Corporate finance HK$'000	Wealth management and insurance agency services HK$'000	Money lending HK$'000	Proprietary trading HK$'000	Other operations HK$'000	Consolidated HK$'000
TURNOVER	99,668	9,032	3,675	735	2,441	1,843	14,978	1	132,373
RESULTS	15,552	1,527	789	(2,503)	(2,930)	1,843	13,380	1,375	29,033
Finance costs									(325)
Gain on disposal of non-trading investments									145
Taxation									(2,585)
Minority interests									14
Profit attributable to shareholders									26,282
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									211,275
LIABILITIES									
Segment liabilities	47,478	5,322	2,540	92	1,555	32	–	308	57,327
Taxation									18,139
Total liabilities									75,466
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)*

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 over 90% of the Group's assets are originated from business decisions and operations based in Hong Kong.

4. STAFF COSTS

	2005	2004
	HK$'000	*HK$'000*
Salaries, commissions and allowances	**50,294**	63,539
Contributions to retirement benefit schemes *(Note 12)*	**1,205**	1,040
Rental expenses on staff quarter	**144**	5,294
Others	**917**	259
	52,560	70,132

Staff costs include directors' emoluments *(Note 11)*.

Notes to the Accounts

5. OTHER OPERATING EXPENSES

	2005 HK$'000	2004 HK$'000
Advertising and market development	**1,725**	1,597
Amortisation of intangible assets	**60**	60
Auditors' remuneration		
– Current year	**1,108**	950
– Overprovision in prior years	**–**	(58)
Building management fees	**1,137**	1,078
Depreciation of owned fixed assets	**1,873**	1,719
Depreciation charges paid to a related company *(Note 30(a))*	**2,276**	2,247
Legal and professional fees	**1,537**	1,875
Loss on disposal of fixed assets	**1**	1
Recruitment	**407**	427
Repairs and maintenance	**767**	786
Telecommunication costs	**2,843**	2,967
Trading fees	**105**	187
Other administrative and miscellaneous expenses	**6,617**	7,295
	20,456	21,131

6. FINANCE COSTS

	2005 HK$'000	2004 HK$'000
Interest on short term bank loans and bank overdrafts wholly repayable within five years	**361**	325

Notes to the Accounts

7. TAXATION

Hong Kong profits tax has not been provided as the Group has no estimated assessable profit for the year (2004: 17.5% on the estimated assessable profit).

The amount of taxation (credited)/charged to the consolidated profit and loss account represents:

	2005	2004
	HK$'000	*HK$'000*
Current taxation:		
Hong Kong profits tax	**–**	4,695
Overprovision for tax in previous year	**(740)**	–
Deferred taxation relating to the origination and reversal of temporary differences *(Note 28)*	**3**	(2,110)
Taxation (credit)/charge	**(737)**	2,585

Reconciliation between taxation (credit)/charge and accounting (loss)/profit at Hong Kong profits tax rate is as follows:

	2005	2004
	HK$'000	*HK$'000*
(Loss)/profit before taxation	**(11,848)**	28,853
Calculated at a taxation rate of 17.5% (2004: 17.5%)	**(2,073)**	5,049
Income not subject to taxation	**(346)**	(627)
Expenses not deductible for taxation purposes	**40**	9
Unrecognised tax losses for the current year	**2,418**	1,034
Recognition of prior years' tax losses	**(41)**	(2,880)
Overprovision for tax in previous year	**(740)**	–
Unrecognised deductible temporary difference	**5**	–
Taxation (credit)/charge	**(737)**	2,585

Notes to the Accounts

8. (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The (loss)/profit attributable to shareholders is dealt with in the accounts of the Company to the extent of a profit of HK$2,715,000 (2004: profit of HK$3,790,000).

9. DIVIDENDS

	2005	2004
	HK$'000	*HK$'000*
Interim dividend paid: Nil (2004: HK1 cent) per ordinary share	**–**	2,000
Final dividend proposed: Nil (2004: HK1 cent) per ordinary share	**–**	2,000
	–	4,000

10. (LOSS)/EARNINGS PER SHARE

The calculations of the basic and diluted (loss)/earnings per share is based on the Group's loss attributable to shareholders of approximately HK$11,056,000 (2004: profit of HK$26,282,000).

The basic (loss)/earnings per share is based on the weighted average number of 200,000,000 (2004: 200,000,000) ordinary shares in issue during the year. The diluted (loss)/earnings per share is based on 200,000,000 (2004: 200,000,000) ordinary shares which is the weighted average number of ordinary shares in issue during the year plus the weighted average number of 4,086,000 (2004: Nil) ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

Notes to the Accounts

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' emolument of the Company

The emoluments of every director of the Company for the year ended 30 June 2005 are set out below:

Name of Director	Fees	Salaries and other benefits *(note 1)*	Discretionary bonuses	Employer's contribution to retirement benefit schemes	Compensation for loss of office as director	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors:						
Yip Man Fan	–	1,728	–	34	–	1,762
Kwok Kam Hoi	–	1,536	–	29	–	1,565
Tsunoyama Toru	–	1,344	–	34	–	1,378
Lee Kit Ming, Edmund *(note 2)*	–	950	–	6	–	956
Lee Chi Shing, Caesar *(note 3)*	–	840	–	16	300	1,156
Non-executive directors:						
Lam, Andy Siu Wing	180	–	–	–	–	180
Sun Shuyi *(note 4)*	140	–	–	–	–	140
Yu King Tin *(note 5)*	129	–	–	–	–	129
Ma Chiu Cheung, Andrew *(note 6)*	83	–	–	–	–	83

The emoluments of every director of the Company for the year ended 30 June 2004 are set out below:

Name of Director	Fees	Salaries and other benefits (note 1)	Discretionary bonuses	Employer's contribution to retirement benefit schemes	Compensation for loss of office as director	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors:						
Yip Man Fan	–	7,032	2,879	34	–	9,945
Kwok Kam Hoi	–	1,555	1,440	29	–	3,024
Tsunoyama Toru	–	1,456	1,440	33	–	2,929
Sin Wai Chiu Joseph	–	518	–	2	–	520
Non-executive directors:						
Lam, Andy Siu Wing	180	–	–	–	–	180
Ma Chiu Cheung, Andrew	180	–	–	–	–	180

Notes to the Accounts

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

Directors' emolument of the Company *(Continued)*

Notes:

1. Other benefits include housing benefits and unused annual leaves.
2. Appointed on 12 January 2005 and resigned on 7 July 2005.
3. Appointed on 1 November 2004 and resigned on 30 June 2005.
4. Appointed on 21 September 2004.
5. Appointed on 14 October 2004.
6. Resigned on 30 September 2004 and reappointed on 14 April 2005.

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 26 to the accounts. During the year, no options were exercised and no benefits arising from the granting of these share options were included in the directors' emoluments disclosed above or recognised in the profit and loss account.

Employees' emoluments

The six (2004: five) individuals whose emoluments were the highest in the Group for the year include four directors (2004: three directors) whose emoluments are reflected in the analysis presented above. Of the six individuals, two were paid the same during the year. The emoluments payable to the remaining two (2004: two) individuals during the year are as follows:

	2005	2004
	HK$'000	*HK$'000*
Salaries and other benefits	**1,920**	1,920
Bonuses	**–**	57
Contributions to retirement benefit schemes	**24**	24
	1,944	2,001

The emoluments fell within the following bands:

	Number of individuals	
	2005	2004
Nil to HK$1,000,000	**2**	1
HK$1,000,001 to HK$1,500,000	**–**	1

Notes to the Accounts

12. RETIREMENT BENEFIT 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.

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:

	2005	2004
	HK$'000	*HK$'000*
Gross employer's contributions	**1,522**	1,535
Less: Forfeited contributions utilised to offset employer's contributions for the year	**(317)**	(495)
Net employer's contributions charged to profit and loss account	**1,205**	1,040

Notes to the Accounts

13. INTANGIBLE ASSETS

	Group
	HK$'000
COST	
At 1 July 2004 and 30 June 2005	600
ACCUMULATED AMORTISATION	
At 1 July 2004	70
Charge for the year	60
At 30 June 2005	130
CARRYING AMOUNT	
At 30 June 2005	470
At 30 June 2004	530

Notes to the Accounts

14. FIXED ASSETS

	Group				
	Leasehold improvements	**Furniture and fixtures**	**Office equipment**	**Computer equipment**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST					
At 1 July 2004	2,073	745	1,611	3,851	8,280
Additions	1,701	93	288	274	2,356
Disposal	–	–	–	(16)	(16)
At 30 June 2005	**3,774**	**838**	**1,899**	**4,109**	**10,620**
ACCUMULATED DEPRECIATION					
At 1 July 2004	1,662	336	818	2,332	5,148
Charge for the year	589	151	357	776	1,873
Disposal	–	–	–	(5)	(5)
At 30 June 2005	**2,251**	**487**	**1,175**	**3,103**	**7,016**
NET BOOK VALUE					
At 30 June 2005	**1,523**	**351**	**724**	**1,006**	**3,604**
At 30 June 2004	411	409	793	1,519	3,132

Notes to the Accounts

15. OTHER ASSETS

	Group	
	2005	2004
	HK$'000	*HK$'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 Securities and Futures Commission	**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
Tax reserve certificate issued by Inland Revenue Department	**12,543**	1,262
	14,543	3,262

16. NON-TRADING INVESTMENTS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Listed equities in Hong Kong, at fair value	**26,251**	20,896	**16,180**	12,880

A subsidiary of the Company has pledged listed investments of aggregate carrying amount of HK$26,251,000 (2004: HK$8,016,000) to a bank as collateral for the banking facilities.

At 30 June 2005, the carrying amount of interests in the following company exceeded 10% of total assets of the Group and the Company:

Name	Place of incorporation	Principal activities	Particulars of issued shares held	% interest held Group	% interest held Company
Hong Kong Exchanges and Clearing Limited	Hong Kong	Investment holding	Ordinary shares of HK$1 each	0.12%	0.08%

Notes to the Accounts

17. INVESTMENTS IN SUBSIDIARIES

	Company	
	2005	2004
	HK$'000	*HK$'000*
Unlisted shares, at cost	**65,237**	65,237
Amounts due from subsidiaries	**34,400**	32,300
	99,637	97,537

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 30 June 2005. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation/ place of operation	Principal activities	Issued and fully paid share capital	Percentage of equity interest attributable to the Group	
				Direct	Indirect
Tanrich Financial (Management) Limited ("TFML")	British Virgin Islands/ Hong Kong	Investment holding	US$10,000	100%	–
Tanrich Futures Limited ("TFL")	Hong Kong/Hong Kong	Futures broking	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 operation	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$12,000,000 (divided into 12,000,000 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	
	2005	2004
	HK$'000	*HK$'000*
Loans and advances – unsecured	**–**	27
– secured	**14,000**	20,346
	14,000	20,373
Current portion of loans and advances	**–**	(20,238)
	14,000	135

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	
	2005	2004
	HK$'000	*HK$'000*
Accounts receivable arising from the ordinary course of business of broking in securities and futures contracts:		
– securities cash clients	**2,777**	3,102
– securities margin clients	**32,725**	49,037
– securities clearing house and brokers	**243**	3,227
– futures clearing house and brokers		
– HKFECC	**488**	601
– brokers for commodity futures contracts on TGE and TOCOM	**10,194**	24,579
– brokers for commodity and currency futures contracts on other overseas exchanges	**19,052**	19,904
Accounts receivable arising from the provision of corporate finance advisory services	**53**	30
Accounts receivable arising from the provision of unit trusts and insurance-linked products agency services	**195**	747
	65,727	101,227

The accounts receivable from the HKFECC excludes a deposit of HK$872,000 (2004: HK$1,170,000) relating to the clients' monies.

Notes to the Accounts

19. ACCOUNTS RECEIVABLE *(Continued)*

Credit policy for margin lending activities

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

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

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

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

CCCWG is responsible for monitoring the margin call on a daily basis. It reviews the overall risk and credit control on a monthly 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 represent 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 are secured by clients' pledged securities, repayable on demand and bear interest at commercial rates. As at 30 June 2005 and 30 June 2004, included in the accounts receivable from securities margin clients were overdue margin calls of HK$4,666,000 and HK$8,628,000 respectively.

19. ACCOUNTS RECEIVABLE *(Continued)*

Settlement terms *(Continued)*

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

	Group	
	2005	2004
	HK$'000	*HK$'000*
Within 30 days	**1**	4,639
31 – 90 days	**–**	991
91 – 180 days	**973**	–
Over 180 days	**3,692**	2,998
	4,666	8,628

No provision was made for overdue margin calls as at 30 June 2005 and 30 June 2004.

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 30 June 2005 and 30 June 2004, included in the accounts receivable from securities cash clients were receivables not settled on settlement dates of HK$95,000 and HK$876,000 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	
	2005	2004
	HK$'000	*HK$'000*
Within 30 days	**21**	142
31 – 90 days	**–**	84
91 – 180 days	**–**	–
Over 180 days	**74**	680
	95	906

No provision was made for these receivables not settled on settlement dates as at 30 June 2005 (2004: HK$650,000).

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	
	2005	2004
	HK$'000	*HK$'000*
Rental and other deposits	**3,038**	3,525
Prepayments and other receivables	**958**	1,419
	3,996	4,944

21. NON-TRADING INVESTMENTS

	Group	
	2005	2004
	HK$'000	*HK$'000*
Listed equities in Hong Kong, at fair value	**5,782**	–

22. TRADING SECURITIES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Listed warrants in Hong Kong, at fair value	**939**	–

23. CASH AND BANK BALANCES

The subsidiaries of the Company maintain trust accounts with authorised institutions as a result of their normal business transactions. At 30 June 2005, trust accounts not otherwise dealt with in these accounts amounted to HK$52,577,000 (2004: HK$41,789,000).

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 30 June 2005, they have pledged bank deposits of HK$1,000,000 (2004: HK$1,560,000) and HK$500,000 (2004: HK$1,763,000) to authorised institutions for foreign exchange deferred trading and banking facilities respectively.

Notes to the Accounts

24. ACCOUNTS PAYABLE

	Group	
	2005	2004
	HK$'000	*HK$'000*
Accounts payable arising from the ordinary course of business of broking in securities and futures contracts:		
– securities cash clients	**3,544**	4,366
– securities margin clients	**251**	2,150
– futures clients	**19,829**	38,308
– clearing house	**397**	–
Accounts payable arising from the provision of unit trusts and insurance-linked products agency services	**52**	110
	24,073	44,934

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.

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$53,449,000 (2004: HK$42,959,000).

25. SHARE CAPITAL

	Ordinary share of HK$0.1 each	
	No. of shares	*HK$'000*
Authorised:		
At 1 July 2004 and 30 June 2005	1,000,000,000	100,000
Issued and fully paid:		
At 1 July 2004 and 30 June 2005	200,000,000	20,000

Notes to the Accounts

26. 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 7 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.

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

	Number of options *('000)*	
	2005	2004
At 1 July	**15,040**	18,280
Granted *(note (a))*	**–**	–
Lapsed *(note (b))*	**(930)**	(3,240)
At 30 June *(note (c))*	**14,110**	15,040

Note:

(a) Pursuant to the Pre-Listing Scheme, share options were granted to certain directors, employees and bona fide consultants of the Group on 22 February 2002 at the subscription price of HK$0.72 per share which can be exercised at any time from 22 February 2003 to 7 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 respective consideration was received.

(b) During the year, a total of 930,000 (2004: 3,240,000) share options had lapsed in accordance with the terms and conditions of the Pre-Listing Scheme following the resignation of employees and cessation of consultancy services.

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

	Number of options *('000)*		Vested percentages	
	2005	2004	**2005**	2004
Directors	**5,950**	5,950	**100%**	100%
Other employees	**7,990**	8,800	**100%**	100%
Bona fide consultants	**170**	290	**100%**	100%
	14,110	15,040		

Notes to the Accounts

26. SHARE OPTION SCHEMES *(Continued)*

Post-Listing Share Option Scheme

Another share option scheme of the Company was adopted on 30 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 option.

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

	Number of options *('000)*			
		2005		2004
Exercise price	**HK$0.80**	**HK$0.67**	**Total**	Total
At 1 July	**–**	**18,614**	**18,614**	–
Granted *(note (a))*	**2,600**	**–**	**2,600**	18,614
Lapsed *(note (b))*	**–**	**(2,150)**	**(2,150)**	–
At 30 June *(note (c))*	**2,600**	**16,464**	**19,064**	18,614

Note:

(a) Pursuant to the Post-Listing Scheme, share options were granted to certain directors, employees and advisors and consultants of the Group on 27 April 2004 at the subscription price of HK$0.67 per share which can be exercised at any time from 27 April 2005 to 26 April 2014.

During the year, a total of 2,600,000 share options were granted to certain directors and employees of the Group on 1 February 2005 at the subscription price of HK$0.80 per share which can be exercised at any time from 1 February 2006 to 31 January 2015. No respective consideration was received.

(b) During the year, a total of 2,150,000 (2004: Nil) share options had lapsed in accordance with the terms and conditions of the Post-Listing Scheme following the resignation of employees and cessation of consultancy services.

Notes to the Accounts

26. SHARE OPTION SCHEMES *(Continued)*

Post-Listing Share Option Scheme *(Continued)*

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

	Number of options *('000)*				Vested percentages		
	2005			2004	2005		2004
Exercise price	**HK$0.80**	**HK$0.67**	**Total**	Total	**HK$0.80**	**HK$0.67**	Total
Directors	**2,000**	**2,000**	**4,000**	2,000	**0%**	**100%**	0%
Other employees	**600**	**11,084**	**11,684**	13,038	**0%**	**100%**	0%
Advisors and consultants	**–**	**3,380**	**3,380**	3,576	**–**	**100%**	0%
	2,600	**16,464**	**19,064**	18,614			

Notes to the Accounts

27. RESERVES

	Group				
	Investment revaluation reserve HK$'000	Share premium HK$'000	Capital reserve *(Note (a))* HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 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 30 June 2004	20,716	17,137	40,836	37,084	115,773
At 1 July 2004	20,716	17,137	40,836	37,084	115,773
Surplus on revaluation of non-trading investments	5,498	–	–	–	5,498
Loss for the year	–	–	–	(11,056)	(11,056)
Dividends paid					
– 2004, final	–	–	–	(2,000)	(2,000)
At 30 June 2005	**26,214**	**17,137**	**40,836**	**24,028**	**108,215**

Notes to the Accounts

27. RESERVES *(Continued)*

	Company				
	Investment revaluation reserve	**Share premium**	**Contributed surplus** *(Note (b))*	**Retained earnings**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 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 30 June 2004	(322)	17,137	65,059	11,320	93,194
At 1 July 2004	(322)	17,137	65,059	11,320	93,194
Surplus on revaluation of non-trading investments	3,300	–	–	–	3,300
Profit for the year	–	–	–	2,715	2,715
Dividends paid					
– 2004 final	–	–	–	(2,000)	(2,000)
At 30 June 2005	**2,978**	**17,137**	**65,059**	**12,035**	**97,209**

Note:

(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 30 June 2001, which were converted into deferred non-voting share capital on 11 January 2002.

Notes to the Accounts

27. RESERVES *(Continued)*

(b) Contributed surplus

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

(c) Distributable reserve

As at 30 June 2005, in the opinion of the directors of the Company, the reserves of the Company available for distribution to shareholders amounted to HK$80,072,000 (2004: HK$76,057,000) subject to the restriction stated above.

28. DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2004: 17.5%).

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

	Group	
	2005	2004
	HK$'000	*HK$'000*
At 1 July	**(3,269)**	(1,159)
Deferred taxation charged/(credited) to profit and loss account *(Note 7)*	**3**	(2,110)
At 30 June	**(3,266)**	(3,269)

Deferred income tax assets are recognised for tax losses and deductible temporary difference arising from decelerated depreciation on fixed assets carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. At 30 June 2005, the Group has unrecognised tax losses and deductible temporary difference amounted to HK$29,913,000 (2004: HK$16,710,000) and HK$28,000 (2004: Nil) respectively to carry forward against future taxable income. These tax losses do not expire under the current tax legislation.

Notes to the Accounts

28. 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**	
	2005	2004
	HK$'000	*HK$'000*
At 1 July	**142**	122
Charged to profit and loss account	**128**	20
At 30 June	**270**	142

Deferred tax assets	**Unused depreciation allowances**		**Unused tax losses**		**Total**	
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
At 1 July	**–**	13	**3,411**	1,268	**3,411**	1,281
Credited/(charged) to profit and loss account	**285**	(13)	**(160)**	2,143	**125**	2,130
At 30 June	**285**	–	**3,251**	3,411	**3,536**	3,411

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

	2005	2004
	HK$'000	*HK$'000*
Deferred tax assets	**(3,286)**	(3,325)
Deferred tax liabilities	**20**	56
	(3,266)	(3,269)

The amounts shown in the balance sheet include the following:

	2005	2004
Deferred tax assets to be recovered after more than 12 months	**(3,006)**	(2,695)
Deferred tax liabilities to be settled after more than 12 months	**1**	15

Notes to the Accounts

29. COMMITMENTS AND CONTINGENT LIABILITIES

(i) Commitments under operating leases

As at 30 June 2005, 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	
	2005	2004
	HK$'000	*HK$'000*
Not later than one year	**8,432**	8,493
Later than one year and not later than five years	**12,408**	5,642
	20,840	14,135

(ii) Capital commitments for property, plant and equipment

	Group	
	2005	2004
	HK$'000	*HK$'000*
Contracted but not provided for	**276**	503

(iii) Other commitments

As at 30 June 2005, the Company has undertaken to guarantee the banking facilities of HK$105.5 million (2004: HK$105.5 million) granted to two of its subsidiaries. The banking facilities were applied in their normal courses of business activities. The Company has also guaranteed the liabilities of one of its subsidiaries up to an aggregate amount of not less than HK$10.0 million in order to comply with the requirement of unencumbered assets contained in the Rules Governing the Listing of Securities on the Growth Enterprise Market of the SEHK.

Notes to the Accounts

29. COMMITMENTS AND CONTINGENT LIABILITIES *(Continued)*

(iv) Off-balance sheet financial instruments

The following table provides a detailed 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)**
	HK$'000	*HK$'000*
At 30 June 2005		
Currency futures contracts – Trading	96,775	917
Commodity futures contracts – Trading	450	(19)
Foreign exchange deferred trading – Hedging	20,006	56
At 30 June 2004		
Equity index futures contracts – Trading	6,760	(106)
Currency futures contracts – Trading	68,950	(61)
Foreign exchange deferred trading – Hedging	31,200	133

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

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.

Notes to the Accounts

29. COMMITMENTS AND CONTINGENT LIABILITIES *(Continued)*

(v) Contingent liabilities

As at 30 June 2005, an independent third party and TFL, an indirect wholly-owned subsidiary of the Company, were engaged in arbitration proceedings concerning, inter alia, the alleged unauthorised trading of futures contracts by an ex-employee of TFL. TFL was in the course of defending the said arbitration proceedings. In the event that the defence of the arbitration proceedings is unsuccessful, TFL may be held liable for an amount in the region of HK$1.5 million to HK$2.5 million, inclusive of interest and legal costs. Exchange of correspondence is currently in process between two parties and no conclusion was reached as at 30 June 2005. It is not currently possible to estimate the eventual outcome of the above claim and based on legal advice to date, the directors of the Company consider that no provision needs to be made in the accounts.

30. 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 entities.

During the year, the Group had the following transactions with a related company, Tanrich (Hong Kong) Holdings Limited ("THKHL") and its subsidiaries, Union Light Investment Limited ("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	
		2005	2004
	Note	***HK$'000***	*HK$'000*
Depreciation	*(a)*	**2,276**	2,247
Management fee income	*(b)*	**(960)**	(960)
Rental expenses on staff quarter	*(c)*	**–**	5,160

(a) The amount represented the depreciation charges 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.

(b) 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.

(c) 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 30 June 2004.

31. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 29 September 2005.