Notes to the Financial Statements

1. General information

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in Note 7 to the financial statements.

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton, HM 11, Bermuda.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in thousands of units of HK dollars (HK$'000) unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 20th April 2006.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of Hantec Investment Holdings Limited have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs"), and interpretation issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

The adoption of new / revised HKFRSs

In 2005, the Group adopted the new / revised HKFRSs as set out below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

The adoption of new / revised HKASs 1, 7, 8, 10, 12, 14, 16, 17, 21, 23, 24, 27, 28 and 33 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associates and other disclosures. In accordance with the implementation guidance in HKAS 1, the Group has changed the presentation and includes the share of taxation of associates accounted for using the equity method in the respective shares of profits reported in the consolidated income statement before arriving at the Group's profit before taxation. In prior years, the Group's share of taxation of associates accounted for using the equity method was included as part of the Group's taxation in the consolidated income statement. These changes in presentation have been applied retrospectively with comparatives restated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

– HKAS 24 has affected the identification of related parties and some other related party disclosures.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets and the fair-value valuation of trade and other receivables.

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill. Until 31st December 2004, goodwill was:

– Amortised on a straight line basis over a period of 3 years; and

– Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3:

– The Group ceased amortisation of goodwill from 1st January 2005;

– Accumulated amortisation as at 31st December 2004 has been eliminated with a corresponding decrease in the cost of goodwill; and

– From the year ended 31st December 2005 onwards, goodwill is tested annually for impairment, as well as when there is an indication of impairment.

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. As a result, the useful lives of Stock Exchange trading rights, Futures Exchange trading right and membership of The Chinese Gold & Silver Exchange Society are reassessed to be indefinite.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

– HKAS 21 – prospective accounting for goodwill and fair value adjustments as part of foreign operations;

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

- HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on retrospective basis. The Group applied the previous SSAP 24 "Accounting for investments in securities" to investments in securities. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1st January 2005;

- HKFRS 2 – only retrospective application for all equity instruments granted after 7th November 2002 and not vested at 1st January 2005; and

- HKFRS 3 – prospectively after the adoption date.

The adjustments to the consolidated balance sheet at 1st January 2005 as a result of adopting HKAS 39 are as follows:

	HK$'000
Increase in trade and other receivables	1,000
Increase in retained earnings	1,000
Increase in financial assets at fair value through profit or loss	16,254
Increase in available-for-sale financial assets	3,267
Decrease in investment in securities held for non-trading purposes	(3,267)
Decrease in investment in securities held for trading purposes	(708)
Decrease in held-to-maturity investments	(15,546)

The estimated effect of adopting these new/revised accounting standards on consolidated balance sheet items at 31st December 2005 are as follows:

	HK$'000
Adoption of HKAS 39	
Increase in trade and other receivables	1,000
Increase in retained earnings	1,000
Increase in financial assets at fair value through profit or loss	1,305
Increase in available-for-sale financial assets	12,089
Decrease in investment in securities held for non-trading purposes	(12,089)
Decrease in investment in securities held for trading purposes	(1,305)

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

The estimated effect of adopting these new/revised accounting standards on consolidated income statement items are as follows:

	2005	2004
	HK$'000	HK$'000
Adoption of HKAS 1 and HKAS 38		
Decrease in share of profits of associates	**(2,151)**	(3,806)
Decrease in other operating expenses	**(542)**	–
Decrease in income tax expenses	**–**	(3,806)
Increase in income tax credits	**2,151**	–

The HKICPA has issued a number of new and revised HKFRSs which are effective for accounting periods beginning on or after 1 January 2006. The Group has not early adopted any of the following new Standards or Interpretations which are relevant to the Group:

HKAS 1 (Amendment)	Capital Disclosures
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKFRS 7[1]	Financial Instruments: Disclosures
HKFRS-Int 4	Determining whether an Arrangement contains a Lease

[1] HKFRS 7 which is effective for accounting period beginning on or after 1st January 2007

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.

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

2. Summary of significant accounting policies (Continued)

2.2 Consolidation (Continued)

(a) Subsidiaries (Continued)

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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 by the Company on the basis of dividend received and receivable.

(b) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (see Note 2.6).

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

2. Summary of significant accounting policies (Continued)

2.2 Consolidation (Continued)

(b) Associates (Continued)

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in associates are stated at cost less provision for impairment losses. The results of associates are accounted for by the Company on the basis of dividend received and receivable.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

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.

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.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in HK dollars, which is the Company's functional and presentation currency.

2. Summary of significant accounting policies (Continued)

2.4 Foreign currency translation (Continued)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Fixed assets

Fixed assets are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation of fixed assets is calculated using the straight-line method to allocate cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Leasehold improvements	over the lease periods
Furniture and fixtures	20%
Office and computer equipment	20%
Motor vehicles	25%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.7).

2.6 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary or associates at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash generating units for the purpose of impairment testing.

2. Summary of significant accounting policies (Continued)

2.6 Intangible assets (Continued)

(b) 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. Trading rights have an indefinite useful life and are carried at cost less accumulated impairment losses.

(c) Membership

The membership of The Chinese Gold & Silver Exchange Society is recognised as an intangible asset on the balance sheet. The membership has an indefinite useful life and is carried at cost less accumulated impairment losses.

2.7 Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment wherever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2.8 Investments

From 1st January 2004 to 31st December 2004:

The Group classified its investments in securities, other than subsidiaries and associates, as non-trading securities and trading securities.

(a) Non-trading securities

Investments which were held for non-trading purpose were stated at fair value at the balance sheet date. Changes in the fair value of individual securities were credited or debited to the investment revaluation reserve until the securities were sold, or were 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, was dealt with in the income statement.

Where there was objective evidence that individual investments were impaired the cumulative loss recorded in the revaluation reserve was taken to the income statement.

2. Summary of significant accounting policies (Continued)

2.8 Investments (Continued)

(b) Trading securities

Trading securities were 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 were recognised in the income statement. Profits or losses on disposal of trading securities, representing the difference between the net sales proceeds and the carrying amounts, were recognised in the income statement as they arose.

From 1st January 2005 onwards:

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments are acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet (see Note 2.9).

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. During the year, the Group did not hold any investments in this category.

2. Summary of significant accounting policies (Continued)

2.8 Investments (Continued)

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active and for unlisted securities, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

2. Summary of significant accounting policies (Continued)

2.9 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

2.10 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.11 Financial liabilities

Financial liabilities are generally classified as financial liabilities at fair value through profit or loss or other financial liabilities. Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in income statement directly. Other financial liabilities including bank and other borrowings, trade and other payables and amounts due to subsidiaries for the Company are carried at amortised cost using the effective interest method after initial recognition.

2.12 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

2. Summary of significant accounting policies (Continued)

2.13 Deferred income tax

Deferred income tax 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 consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related income tax asset is realised or the deferred income tax liability is settled.

Deferred income 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.

2.14 Employee benefits

(a) 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.

(b) 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.

(c) 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 contributions are recognised as employee benefit expenses when they are due and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

2. Summary of significant accounting policies (Continued)

2.14 Employee benefits (Continued)

(d) Share options

Share options are granted to directors and employees of the Group. The adoption of HKFRS 2 does not require the Group expenses the cost of share options in the income statement as all the share options were granted by the Company before 7th November 2002. Instead, the financial impact of share options granted by the Company is not recognised in these financial statements 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.

2.15 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.

2.16 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.

Net revenue from foreign exchange options trading and broking 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 financial statements based on trade dates. Accordingly, only those transactions whose trade dates fall within the accounting year have been taken into account.

2. Summary of significant accounting policies (Continued)

2.16 Revenue recognition (Continued)

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.

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

2.17 Leases

(a) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are expensed in the income statement on a straight-line basis over the period of the lease.

(b) Finance lease

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The interest element of the finance cost is recognised in the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.19 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 financial statements. 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 financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

2.20 Finance costs

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

2.21 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees are commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

2.22 Trust accounts

Trust accounts maintained by the subsidiaries of the Company to hold clients' monies are not recognised as an asset in the financial statements. 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.

2. Summary of significant accounting policies (Continued)

2.23 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.

2.24 Fiduciary Activities

The Group commonly acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

3. Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by a Risk Management Committee ("RMC") under policies approved by the Board of Directors. RMC identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The RMC recommends overall risk management policy for the approval of the Board or the Executive Management Committee ("EMC") of the Group, covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investing excess liquidity.

(a) Market risk

(i) Foreign exchange risk

The Group carries out business in foreign exchange trading and has certain investments overseas and therefore is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the HK dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arises from the net assets of the Group's foreign operations in China, Taiwan, New Zealand, Japan and Switzerland.

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

The Group's net trading positions are denominated in currencies other than its functional currency or presentation currency and are subject to fluctuation in foreign exchange among the different currencies. The treasury function of the Group is responsible for managing the foreign exchange risk under prudent guidelines on position limits and floating loss limits. The RMC reviewed the limits from time to time to cope with changes in volatility in the market.

(ii) Price risk

The Group is exposed to price risk on the net positions on bullion trading. The dealing function of bullion trading is responsible for managing the price risk under limits on positions and floating loss approved by the EMC.

(b) Credit risk

The Group has no significant credit risk. It has policies in place to ensure that credits are granted to customers with an appropriate credit history and/or collateral deposited with the Group. For leveraged foreign exchange trading, futures trading and bullion trading, an initial margin will be collected before opening of trading positions. Moreover, the Group has no significant concentration of credit risk as credits are granted to a vast variety of clients. Derivative counterparties and cash transactions are limited to high-credit-quality financial institutions and only brokers having sound credit ratings will be accepted. The Group has maintained relationship with various financial institutions, and has policies that limit the amount of credit exposure to any financial institution.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group employs a prudent liquidity policy.

(d) Cash flow and fair value interest rate risk

The company charged interest on its clients on the basis of its cost of funding plus a mark-up and paid interest to clients on the basis of the interest the company earned from financial institutions less a charge. Financial assets such as trade and other receivables, bank balances and cash-deposits with regulatory bodies are primarily at floating rates. Financial liabilities subject to floating interest rates are trade and other payables, bank overdrafts and loans. Obligations under finance lease are subject to fixed interest rate determined by the inception of the relevant lease. The Group's income and operating cash flows are not subject to significant interest rate risk.

3. Financial risk management (Continued)

3.2 Fair value estimation

The fair value of financial instruments traded in active markets (such as publicly traded derivatives and trading securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives and available-for-sale securities) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The carrying values of other financial assets and liabilities approximate their fair values.

4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstance.

(a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

(b) Income taxes

The Group is subject to income taxes in several jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

4. Critical accounting estimates and judgements (Continued)

(c) Estimate of fair value of financial instruments

The best evidence of fair value is current prices in an active market for listed equity securities. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates.

(d) Litigation

The Group considers each case involving litigation individually to assess the probability of any outflow of resources. If in the opinion of the directors that an outflow of resources embodying economic benefits will be required to settle the litigation, a provision will be made to the extent of the probable outflow. In other case, unless the possibility of an outflow of resources embodying economic benefits is remote, a contingent liability will be disclosed.

5. Intangible assets

	Group				
	Stock Exchange trading rights	**Futures Exchange trading right**	**Membership of The Chinese Gold & Silver Exchange Society**	**Goodwill on acquisition of subsidiaries**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1st January 2004					
Cost	6,653	1,500	300	–	8,453
Accumulated amortisation and impairment	(4,495)	(538)	(60)	–	(5,093)
Net book amount	2,158	962	240	–	3,360
Year ended 31st December 2004					
Opening net book amount	2,158	962	240	–	3,360
Acquisition of a subsidiary	–	–	–	1,087	1,087
Amortisation expenses	(332)	(150)	(60)	(302)	(844)
Impairment expenses	(913)	(406)	–	–	(1,319)
Closing net book amount	913	406	180	785	2,284
At 31st December 2004					
Cost	6,653	1,500	300	1,087	9,540
Accumulated amortisation and impairment	(4,827)	(688)	(120)	(302)	(5,937)
Accumulated impairment losses	(913)	(406)	–	–	(1,319)
Net book amount	913	406	180	785	2,284

5. Intangible assets (Continued)

	Group				
	Stock Exchange trading rights HK$'000	Futures Exchange trading right HK$'000	Membership of The Chinese Gold & Silver Exchange Society HK$'000	Goodwill on acquisition of subsidiaries HK$'000	Total HK$'000
Year ended 31st December 2005					
Opening net book amount	913	406	180	785	2,284
Acquisition of a subsidiary	–	–	–	76	76
Impairment expenses	–	–	–	(861)	(861)
Closing net book amount	913	406	180	–	1,499
At 31st December 2005					
Cost	913	406	180	861	2,360
Accumulated impairment losses	–	–	–	(861)	(861)
Net book amount	913	406	180	–	1,499

In the current year, management considered the recoverable amount of the goodwill on acquisition of subsidiaries to be nil and established a provision for impairment loss on such goodwill. The resulting loss was taken to the income statement.

6. Fixed assets

	Group				
	Leasehold improvements	Furniture & fixtures	Office & computer equipment	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	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 and 1st January 2005	1,639	1,507	14,886	1,684	19,716
Additions	2,284	941	2,187	63	5,475
Disposals	(222)	(16)	(2,088)	–	(2,326)
Exchange difference	(3)	–	(13)	–	(16)
At 31st December 2005	3,698	2,432	14,972	1,747	22,849
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 and 1st January 2005	753	526	8,461	1,396	11,136
Charge for the year	894	344	2,696	117	4,051
Disposals	(129)	(12)	(1,584)	–	(1,725)
Exchange difference	(8)	(2)	–	(1)	(11)
At 31st December 2005	1,510	856	9,573	1,512	13,451
Net book value					
At 31st December 2005	2,188	1,576	5,399	235	9,398
At 31st December 2004	886	981	6,425	288	8,580

6. Fixed assets (Continued)

	Company			
	Leasehold improvement HK$'000	Furniture & fixtures HK$'000	Office & computer equipments HK$'000	Total HK$'000
Cost				
At 1st January 2004	–	151	63	214
Additions	–	3	3	6
Disposals	–	–	(28)	(28)
At 31st December 2004 and 1st January 2005	–	154	38	192
Additions	597	145	177	919
Disposals	–	(4)	–	(4)
At 31st December 2005	597	295	215	1,107
Accumulated depreciation				
At 1st January 2004	–	32	14	46
Charge for the year	–	31	9	40
Disposals	–	–	(8)	(8)
At 31st December 2004 and 1st January 2005	–	63	15	78
Charge for the year	185	44	27	256
Disposals	–	(2)	–	(2)
At 31st December 2005	185	105	42	332
Net book value				
At 31st December 2005	412	190	173	775
At 31st December 2004	–	91	23	114

7. Investment in subsidiaries

	Company 2005 HK$'000	2004 HK$'000
Investment at cost, unlisted shares	**218,130**	218,130
Amounts due from subsidiaries (Note (a))	**94,037**	66,825
Amount due to a subsidiary (Note (a))	**(5,069)**	(5,000)
	307,098	279,955

(a) The amounts due from/(to) subsidiaries are unsecured, interest free and repayable on demand.

(b) The following is a list of subsidiaries at 31st December 2005:

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%
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%

7. Investment in subsidiaries (Continued)

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Interest held directly	Interest held indirectly
Hantec 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 Asset Management (Cayman) Limited # ("HAMCL")	Cayman Islands	Asset management in Hong Kong	2 ordinary shares of US$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%

7. 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
北京康景商業顧問有限公司* # ("康景")	People's Republic of China	Provision of consultation services in the People's Republic of China	US$150,000 registered and paid-up capital	–	100%
Chinacorp Nominees Limited ("CNL")	Hong Kong	Holding of leases and provision of administrative support services in Hong Kong	100 ordinary shares of HK$1 each and 10,000 non-voting deferred shares of HK$1 each	–	100%
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%
亨達富林證券投資顧問股份有限公司 (formerly known as 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	–	100%
Hantec Financial Service (Suisse) S.A. ("HFSS")	Switzerland	Provision of broking and trading services in foreign exchange in Switzerland	1,000,000 ordinary shares of CHF1 each	–	100%
Hantec Strategic (BVI) Holdings Limited # ("HSBVIHL")	British Virgin Islands	Investment holding in Hong Kong	50,000 ordinary shares of US$1 each	100%	–

7. 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 (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")	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1 each	100%	–

* Incorporated in the People's Republic of China as a Wholly Foreign Owned Enterprises limited liability company.

Subsidiaries not audited by PricewaterhouseCoopers

The aggregate net assets of the subsidiaries not audited by PricewaterhouseCoopers amounted to approximately 2.06% (2004: 4.72%) of the Group's net assets.

8. Interests in associates

	Group	
	2005	2004
	HK$'000	HK$'000
Share of net assets at 1st January	**11,897**	8,621
Share of associates' results		
– profit before taxation	**6,504**	11,821
– taxation	**(2,151)**	(3,806)
– minority interest	**(10)**	–
	16,240	16,636
Disposal of an associate	**–**	(5,446)
Other equity movements	**(549)**	(316)
Exchange difference	**(759)**	1,023
Share of net assets at 31st December	**14,932**	11,897
Goodwill on acquisition less impairment	**548**	548
	15,480	12,445
Investment at cost, unlisted shares	**7,296**	7,296

8. INTERESTS IN ASSOCIATES (CONTINUTED)

The Group's interest in its principal associates, all of which are unlisted, were as follows:

Name	Particulars of issued shares held	Country of incorporation	Assets	Liabilities	Revenue	Profit	% of interest held indirectly
			HK$'000	HK$'000	HK$'000	HK$'000	
2005							
Cosmos Hantec Investment (NZ) Limited ("CHI")	300,000 ordinary shares of NZ$1 each	New Zealand	36,889	30,159	42,212	2,002	30%
Cosmos Foreign Exchange International Company Limited ("CFX")	2,400,000 ordinary shares of NT$10 each	Taiwan	10,621	2,419	8,782	2,341	20%
			47,510	32,578	50,994	4,343	
2004							
Cosmos Hantec Investment (NZ) Limited ("CHI")	300,000 ordinary shares of NZ$1 each	New Zealand	52,026	46,957	31,181	2,813	30%
Cosmos Foreign Exchange International Company Limited ("CFX")	2,400,000 ordinary shares of NT$10 each	Taiwan	8,143	1,315	5,116	1,208	20%
			60,169	48,272	36,297	4,021	

9. Other assets

	Group	
	2005	2004
	HK$'000	HK$'000
Stock Exchange stamp duty deposit	**75**	75
Stock Exchange Fidelity Fund deposit	**100**	100
Stock Exchange Compensation Fund deposit	**100**	102
Guarantee Fund deposits with the Hong Kong Securities Clearing Company Limited	**100**	100
Statutory deposits and deposits with the Hong Kong Futures Exchange Limited ("HKFE")	**1,570**	1,961
Statutory deposits with the Securities and Futures Commission	**200**	200
Reserve fund deposit with the SEHK Options Clearing House Limited	**1,664**	1,512
	3,809	4,050

10. Available-for-sale financial assets

	2005
	HK$'000
Fair value of unlisted securities transferred from Investment in securities held for non-trading purposes at 1st January 2005	3,267
Additions	6,331
Revaluation surplus transfer to equity *(Note 16)*	2,491
End of year	12,089

There were no disposal or impairment provisions on available-for-sale financial assets in 2005.

10. Available-for-sale financial assets (Continued)

Available-for-sale financial assets include the following:

	2005 HK$'000
Unlisted securities	
Equity securities traded on inactive markets and of private issuers	12,089

11. Deferred income tax

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	Group		Company	
	2005 **HK$'000**	2004 HK$'000	**2005** **HK$'000**	2004 HK$'000
Deferred tax assets	**(5,431)**	(1,092)	**(18)**	(15)
Deferred tax liabilities	**175**	227	**18**	15
	(5,256)	(865)	**–**	–

The gross movement on the deferred income tax account is as follows:

	Group		Company	
	2005 **HK$'000**	2004 HK$'000	**2005** **HK$'000**	2004 HK$'000
Beginning of the year	**(865)**	–	**–**	–
Effect on change in exchange rate	**18**	–	**–**	–
Acquisition of a subsidiary	**–**	(274)	**–**	–
Deferred taxation credited to income statement *(Note 24)*	**(4,409)**	(591)	**–**	–
End of the year	**(5,256)**	(865)	**–**	–

11. Deferred income tax (Continued)

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Group		
	Accelerated tax depreciation	Tax losses	Total
	HK$'000	HK$'000	HK$'000
At 1st January 2004	966	(966)	–
Acquisition of a subsidiary	–	(274)	(274)
Credited to income statement	(35)	(556)	(591)
At 31st December 2004	931	(1,796)	(865)
Effect on change in exchange rate	–	18	18
Credited to income statement	(265)	(4,144)	(4,409)
At 31st December 2005	666	(5,922)	(5,256)

	Company		
	Accelerated tax depreciation	Tax losses	Total
	HK$'000	HK$'000	HK$'000
At 1st January 2004	–	–	–
Charged/(credited) to income statement	15	(15)	–
At 31st December 2004	15	(15)	–
Charged/(credited) to income statement	3	(3)	–
At 31st December 2005	18	(18)	–

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK$21,442,752 (2004: HK$46,887,442) to carry forward against future taxable income. Tax losses have no expiry date except that losses amounting to HK$49,293 (2004: HK$49,293), HK$1,483,586 (2004: HK$1,483,586) and HK$4,741,661 (2004: Nil) expire in 2007, 2008 and 2009 respectively.

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	Company
	2005	2005
	HK$'000	HK$'000
Listed securities:		
Equity securities – Hong Kong	1,305	733
Market value of listed securities	1,305	733

At 1st January 2005, an unlisted 10-year callable note with fair value of HK$15,546,775 and the listed securities with fair value of HK$708,450 were transferred from held-to-maturity investments and investment in securities held for trading purposes respectively to financial assets at fair value through profit or loss in respect of the adoption of HKAS 39.

Change in fair values of financial assets at fair value through profit or loss are recorded in the income statement.

13. Trade and other receivables

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables from clients	**25,973**	36,143	**–**	–
Less: provision for impairment of receivables	**–**	(6,430)	**–**	–
Margin finance loans *(Note (c))*	**59,550**	72,495	**–**	–
Less: provision for impairment of receivables	**–**	(4,745)	**–**	–
Margin and other trade related deposits with brokers and financial institutions *(Note (b))*	**100,264**	88,424	**–**	–
Trade receivables from clearing houses	**28**	7,426	**–**	–
Total trade receivables, net	**185,815**	193,313	**–**	–
Rental and utilities deposits	**4,778**	4,248	**–**	62
Prepayments and other receivables	**6,280**	3,365	**3,188**	1,772
Total trade and other receivables	**196,873**	200,926	**3,188**	1,834

The carrying amounts of total trade and other receivables approximate their fair value.

(a) As at 31st December 2005, the aging analysis of the trade receivables was as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Current	**184,717**	193,163
30-60 days	**301**	60
Over 60 days	**797**	11,265
	185,815	204,488
Less: Provision for impairment of receivables	**–**	(11,175)
	185,815	193,313

13. 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 2005 and 2004 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 2005, the designated accounts with SEOCH and HKFECC not otherwise dealt with in these accounts amounted to HK$1,304,984 (2004: HK$160,169) and HK$10,140,046 (2004: HK$7,776,847) respectively.

(f) The Group has no concentration of credit risk with respect to trade receivables and margin loans, as the Group has a large number of customers, widely dispersed. In addition, margin and trade related deposits are deposited with high-credit-quality financial institutions.

(g) The effective interest rate charged on trade receivables and margin loans as at the balance sheet date ranged from 7.75% to 15.75% per annum (2004: 5% to 13.5%). The effective interest rate for margins and other trade related deposits ranged from 1.5% to 4.3125% per annum (2004: 0.35% to 2.225%).

14. Bank balances and cash

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash in hand	**638**	316	**17**	72
Bank balances				
– pledged	**23,082**	23,015	**–**	–
– general accounts	**138,419**	96,968	**8,380**	4,282
	161,501	119,983	**8,380**	4,282
	162,139	120,299	**8,397**	4,354
By maturity:				
Bank balances				
– Current and savings accounts	**116,697**	117,499	**8,380**	4,282
– Fixed deposits (maturing within three months)	**44,804**	2,484	**–**	–
	161,501	119,983	**8,380**	4,282

As at 31st December 2005, bank deposits amounting to HK$10,762,271 (2004: HK$10,530,779) have been pledged to a bank for banking facilities to the extent of HK$26 million (2004: HK$26 million) in securities broking of the Group. In addition, bank deposits amounting to HK$12,319,973 (2004: HK$12,483,995) have been pledged to a financial institution for trading facilities in leveraged foreign exchange broking of the Group.

As at 31st December 2005, included in the aggregate banking facilities of HK$130 million (2004: HK$130 million) granted to the Group, HK$118 million (2004: HK$118 million) were granted under the Company's corporate guarantee (see Note 31(d)). Whereas, a subsidiary of the Company which engages in securities broking has utilised HK$28,724,837 (2004: HK$20,507,362) 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 2005, segregated trust accounts not otherwise dealt with in these financial statements amounted to HK$226,594,219 (2004: HK$221,396,256).

15. SHARE CAPITAL

	2005		2004	
	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. The Group has no legal obligation to settle the options in cash.

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

	Number of options	
	2005 '000	2004 '000
At the beginning of the year	**13,950**	14,250
Granted	**–**	–
Exercised	**–**	–
Lapsed	**(2,350)**	(300)
At the end of the year	**11,600**	13,950

15. 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	
		2005	2004	**2005**	2004
Directors					
– 1st February 2006	0.6600	**2,850,000**	3,350,000	**100%**	100%
– 8th August 2006	0.6128	**2,300,000**	3,300,000	**100%**	100%
		5,150,000	6,650,000		
Other employees					
– 1st February 2006	0.6600	**3,800,000**	4,250,000	**100%**	100%
– 8th August 2006	0.6128	**2,650,000**	3,050,000	**100%**	100%
		6,450,000	7,300,000		
		11,600,000	13,950,000		

An option covering 950,000 (2004: 200,000) ordinary shares at HK$0.1 each exercisable at HK$0.66 and 1,400,000 (2004: 100,000) ordinary shares at HK$0.1 each exercisable at HK$0.6128 were lapsed as a result of resignation of grantees during the year.

16. Reserves

	Group					
	Share premium HK$'000	**Capital reserves** HK$'000	**Investment revaluation reserves** HK$'000	**Retained earnings** HK$'000	**Exchange differences** HK$'000	**Total** HK$'000
Balance at 1st January 2004	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
Balance at 31st December 2004	89,785	100,189	–	41,021	1,653	232,648
Balance at 1st January 2005, as per above	89,785	100,189	–	41,021	1,653	232,648
Opening adjustment for the adoption of HKAS 39	–	–	–	1,000	–	1,000
Balance at 1st January 2005, as restated	89,785	100,189	–	42,021	1,653	233,648
Profit for the year	–	–	–	27,447	–	27,447
Dividend	–	–	–	(9,778)	–	(9,778)
Surplus on revaluation of available-for-sale financial assets	–	–	2,491	–	–	2,491
Exchange difference	–	–	–	–	(1,828)	(1,828)
At 31st December 2005	89,785	100,189	2,491	59,690	(175)	251,980
At 31st December 2005						
Company and subsidiaries	89,785	100,189	2,491	52,064	(733)	243,796
Associates	–	–	–	7,626	558	8,184
	89,785	100,189	2,491	59,690	(175)	251,980
At 31st December 2004						
Company and subsidiaries	89,785	100,189	–	37,189	336	227,499
Associates	–	–	–	3,832	1,317	5,149
	89,785	100,189	–	41,021	1,653	232,648

16. Reserves (Continued)

	Company			
	Share premium HK$'000	Retained earnings HK$'000	Contributed surplus HK$'000	Total HK$'000
At 1st January 2004	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
Profit for the year	–	43,083	–	43,083
Dividend	–	(9,778)	–	(9,778)
At 31st December 2005	89,785	57,419	133,101	280,305

(a) Retained earnings are represented as follows:

	Group		Company	
	2005 HK$'000	2004 HK$'000	**2005 HK$'000**	2004 HK$'000
Representing:				
Final dividend proposed	**–**	9,778	**–**	9,778
Others	**59,690**	31,243	**57,419**	14,336
Retained earnings as at 31st December	**59,690**	41,021	**57,419**	24,114

(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.

16. Reserves (continued)

(d) Investment revaluation reserve

The investment revaluation reserve of the Group represents the changes in the fair value of available-for-sale financial assets/non-trading securities.

(e) Distributable reserves

Under the Company Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of the contributed surplus account if:

(i) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

17. Obligations under finance lease

At 31st December 2005, the Group's finance lease liabilities were repayable as follows:

	2005	2004
	HK$'000	HK$'000
Not later than one year	**121**	–
Later than one year and not later than five years	**162**	–
	283	–
Future finance charges on finance leases	**(22)**	–
Present value of finance lease liabilities	**261**	–

The present value of finance lease liabilities is as follows:

	2005	2004
	HK$'000	HK$'000
Not later than one year	**107**	–
Later than one year and not later than five years	**154**	–
	261	–

18. Trade and other payables

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payable to securities trading clients	**21,606**	39,624	**–**	–
Margin and other deposits payable to other clients	**42,294**	4,637	**–**	–
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	**6,434**	839	**–**	–
Total trade payables	**70,334**	45,100	**–**	–
Accruals and other payables	**17,769**	14,588	**773**	852
Total trade and other payables	**88,103**	59,688	**773**	852

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.

The carrying amounts of total trade and other payables approximate their fair value.

The effective interest rate paid on trade payables as at the balance sheet date ranged from 1.5% to 2% per annum (2004: 0.01% to 0.35%)

19. BORROWINGS

	Group	
	2005	2004
	HK$'000	HK$'000
Secured bank overdrafts	**13,586**	6,794
Unsecured bank overdrafts	**5,141**	13,713
Unsecured short-term bank loan	**10,000**	10,000
Total borrowings	**28,727**	30,507

All the borrowings are repayable within one year and classified as current liabilities. The carrying amounts of the borrowings approximate their fair value.

Total borrowings include secured liabilities of HK$13,585,172 (2004: HK$6,794,200) which is secured by collaterals deposited by clients.

The exposure of the Group's borrowings to interest-rate changes and the contractual repricing dates are as follows:

	Group	
	6 months or less	**Total**
	HK$'000	HK$'000
At 31st December 2005		
Total borrowings	**28,727**	**28,727**
At 31st December 2004		
Total borrowings	30,507	30,507

The effective interest rates at the balance sheet date were as follows:

	Group	
	2005	2004
Secured bank overdrafts	**5.75%-7.75%**	3%-5%
Unsecured bank overdrafts	**7.75%**	5%
Unsecured short-term bank loan	**5.79%**	2.12%

All the borrowings of the Group are denominated in HK Dollars.

20. 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:

	2005	2004
	HK$'000	HK$'000
Turnover		
Fees and commission	**91,564**	77,254
Net revenue from		
– foreign currency option trading	**2,007**	7,693
– foreign currency option broking	**789**	163
– bullion trading	**20,701**	6,283
Net premium income from insurance broking	**450**	368
Swap interest and foreign exchange trading revenue	**77,536**	67,325
Interest income	**13,514**	8,219
Underwriting commission	**1,592**	396
Management fee and subscription fee income	**7,102**	2,030
	215,255	169,731
Other revenues		
Dividend income from listed securities	**33**	281
Other income including exchange gains	**1,969**	2,978
	2,002	3,259
Total revenues	**217,257**	172,990

20. 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 six 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. Switzerland – mainly consists of retail clients.

5. Taiwan – mainly consists of retail clients.

6. 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.

20. TURNOVER, REVENUE AND SEGMENT INFORMATION (CONTINUED)

Primary reporting format – Business Segments (Continued)

	Leveraged foreign exchange trading/ broking 2005 HK$'000	Securities broking 2005 HK$'000	Commodities and futures broking 2005 HK$'000	Corporate finance 2005 HK$'000	Asset management 2005 HK$'000	Financial planning/ insurance broking 2005 HK$'000	Precious metal contracts trading/ broking 2005 HK$'000	Unallocated 2005 HK$'000	Total 2005 HK$'000
Turnover	114,362	24,579	15,986	7,718	3,185	21,012	28,323	90	215,255
Segment results	18,127	4,332	1,236	1,329	959	(4,836)	5,574	(2,741)	23,980
Operating profit									23,980
Finance costs									(2,090)
									21,890
Share of profits of associates	2,131	–	–	–	–	–	–	2,341	4,472
Profit before taxation									26,362
Income tax credits									701
Profit after taxation									27,063
Minority interests									384
Profit attributable to equity holders									27,447
Segment assets	157,373	113,902	25,619	10,067	6,767	23,905	15,041	35,624	388,298
Interests in associates	6,730	–	–	–	–	–	–	8,750	15,480
Deferred income tax assets									5,431
Total assets									409,209
Segment liabilities	14,032	57,901	15,365	240	545	5,475	3,528	20,855	117,941
Deferred income tax liabilities									175
Total liabilities									118,116
Capital expenditure	1,400	179	21	–	–	1,989	50	1,988	5,627
Impairment charge	–	–	–	–	–	–	–	861	861
Depreciation	874	1,288	37	9	3	523	21	1,296	4,051
Other non-cash expenses	235	71	23	5	–	93	28	137	592

20. Turnover, revenue and segment information (Continued)

Primary reporting format – Business Segments (Continued)

	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 associates	3,040	–	3,992	–	–	–	–	1,208	8,240
Profit before taxation									27,116
Income tax expenses									(4,326)
Profit after taxation									22,790
Minority interests									371
Profit attributable to equity holders									23,161
Segment assets	151,585	126,033	22,698	9,361	4,704	18,696	3,083	19,706	355,866
Interests in associates	5,069	–	–	–	–	–	–	7,376	12,445
Deferred income tax assets									1,092
Total assets									369,403
Segment liabilities	8,635	73,088	12,968	496	158	3,564	(6,300)	1,568	94,177
Deferred income tax liabilities									227
Total liabilities									94,404
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
Amortisatiton charge	–	332	150	–	–	–	60	667	1,209
Other non-cash expenses	132	824	33	1,312	–	56	–	–	2,357

20. TURNOVER, REVENUE AND SEGMENT INFORMATION (CONTINUED)

Primary reporting format – Business Segments (Continued)

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, receivables and operating cash, and mainly exclude investment in associates 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.

Secondary reporting format – Geographical Segments

	Turnover		**Total assets**		**Capital expenditure**	
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Hong Kong	**154,489**	116,405	**257,645**	253,361	**1,999**	4,352
China	**15,513**	21,052	**6,309**	6,755	**504**	157
New Zealand	**26,449**	21,248	**–**	–	**–**	–
Switzerland	**(615)**	–	**24,194**	–	**735**	–
Taiwan	**11,608**	703	**17,005**	11,736	**2,385**	910
Other countries	**7,811**	10,323	**83,145**	84,014	**4**	–
	215,255	169,731	**388,298**	355,866	**5,627**	5,419
Interests in associates			**15,480**	12,445		
Deferred income tax assets			**5,431**	1,092		
Total assets			**409,209**	369,403		

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

21. STAFF COSTS

	2005	2004
	HK$'000	HK$'000
Salaries and allowances	**51,769**	41,823
Defined contribution plans *(Note 28)*	**1,475**	1,068
	53,244	42,891

Staff costs include directors' emoluments as set out in Note 29.

22. Other operating expenses

	2005 HK$'000	2004 HK$'000
Advertising and promotion	**3,541**	2,278
Amortisation cost of trading rights and membership	**–**	542
Amortisation of goodwill	**–**	667
Auditors' remuneration	**1,771**	1,550
Bad debts written off	**280**	1,423
Bank charges	**312**	317
Communication expenses	**1,880**	1,404
Consultancy fee	**2,395**	942
Depreciation of fixed assets	**4,051**	3,726
Entertainment	**1,988**	1,549
Equipment rental expenses	**5,991**	5,451
Exchange loss	**2,913**	19
Impairment charge		
– trading right	**–**	1,319
– goodwill	**861**	–
Insurance	**1,618**	1,440
Legal and professional fee	**3,773**	3,006
Loss on disposal of fixed assets	**455**	162
Miscellaneous expenses	**8,439**	5,083
Printing and stationery	**1,368**	1,395
Provision for doubtful debts	**–**	645
Repairs and maintenance	**1,859**	2,452
Staff welfare	**1,523**	695
Travelling expenses	**6,733**	3,027
	51,751	39,092

23. Finance costs

	2005 HK$'000	2004 HK$'000
Interest on bank overdrafts	**976**	956
Interest on bank loans	**1,101**	584
Interest on other loans	**–**	2
Interest on obligation under finance leases	**13**	–
	2,090	1,542

24. INCOME TAX EXPENSES

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 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 (credited)/charged to the consolidated income statement:

	2005	2004
	HK$'000	HK$'000
Current taxation:		
– Hong Kong profits tax	**3,281**	4,811
– Overseas taxation	**390**	99
– Under provisions for taxation	**37**	7
Deferred taxation relating to the origination and reversal of temporary differences	**(4,409)**	(591)
Taxation (credits)/expenses	**(701)**	4,326

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:

	2005	2004
	HK$'000	HK$'000
Profits before taxation	**21,890**	18,876
Calculated at a taxation rate of 17.5% (2004: 17.5%)	**3,831**	3,303
Effect of different taxation rates in other countries	**(214)**	(187)
Tax effect of income not subject to taxation	**(1,124)**	(675)
Tax effect of expenses not deductible for taxation purposes	**412**	982
Utilisation of previously unrecognised tax losses	**(5,542)**	(68)
Tax losses for which no deferred income tax assets was recognised	**1,899**	964
Under provisions for taxation	**37**	7
Taxation (credits)/expenses	**(701)**	4,326

25. Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of a profit of HK$43,083,613 (2004: HK$7,570,798).

26. Dividends

	2005 HK$'000	2004 HK$'000
Proposed final dividend of HK$nil (2004: HK$0.025) per ordinary share	–	9,778

The directors do not recommend the payment of a final dividend for the year ended 31st December 2005 (2004: HK$0.025 per share)

27. 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$27,446,846 (2004: HK$23,160,933) and the weighted average number of 391,130,000 (2004: 391,130,000) ordinary shares in issue during the year.

Diluted earnings per share is calculated based on the adjusted weighted average number of 391,309,385 (2004: 391,668,991) ordinary shares which is calculated adjusting the weighted average nunber of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares in respect of share options. The calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have issued assuming the exercise of the share options.

28. 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:

	2005 HK$'000	2004 HK$'000
Gross employer's contributions	1,605	1,229
Less: Forfeited contributions utilised to offset employer's contribution for the year	(130)	(161)
Net employer's contributions charged to income statement	1,475	1,068

29. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' and senior management's emoluments

The remuneration of every director for the year ended 31st December 2005 is set out below:

Name of Director	Fee	Salary	Discretionary bonuses	Other benefits	Employer's contribution to pension scheme	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Tang Yu Lap	–	1,200	125	–	12	1,337
Tang Ping Sum	–	1,860	227	–	12	2,099
Sze Chong Hoi	–	1,200	50	–	12	1,262
Chan Na Wah	–	105	–	104	3	212
Lam Ngok Fung	–	780	113	15	12	920
Ng Chiu Mui	–	540	72	–	12	624
Poon Wai Ming	–	732	81	–	12	825
Law Kai Yee	–	86	60	8	–	154
Fong Wo	105	–	–	–	–	105
Man Kong Yui	39	–	–	–	–	39
Chung Shui Ming	189	–	–	–	–	189
Yu Man Woon	115	–	–	–	–	115
Cheng Wing Chi	105	–	–	–	–	105
Nyaw Mee Kau	89	–	–	–	–	89
	642	6,503	728	127	75	8,075

29. Directors' and senior management's emoluments (Continued)

(a) Directors' and senior management's emoluments (Continued)

The remuneration of every director for the year ended 31st December 2004 is set out below:

Name of Director	Fee HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Other benefits HK$'000	Employer's contribution to pension scheme HK$'000	Total HK$'000
Tang Yu Lap	–	241	160	–	12	413
Man Kong Yui	84	126	–	–	2	212
Tang Ping Sum	–	1,793	150	–	12	1,955
Sze Chong Hoi	–	600	150	580	12	1,342
Chan Na Wah	–	600	150	585	12	1,347
Lam Ngok Fung	–	720	90	3	12	825
Ng Chiu Mui	–	174	60	–	9	243
Poon Wai Ming	–	664	60	–	11	735
Fong Wo	100	–	–	–	–	100
Fan Sheung Tak	74	–	–	–	–	74
Chung Shui Ming	173	–	–	–	–	173
Yu Man Woon	100	–	–	–	–	100
Cheng Wing Chi	25	–	–	–	–	25
Cheung Man Kok	75	–	–	–	–	75
	631	4,918	820	1,168	82	7,619

29. 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 (2004: four) whose emoluments are reflected in the analysis presented above. The emolument payable to the remaining one (2004: one) individual during the year is as follows:

	2005 **HK$'000**	2004 HK$'000
Basic salaries, other allowances, share options and benefits in kind	**984**	960
Bonus	**63**	35
Defined contribution plans	**12**	12
	1,059	1,007

The emoluments fell within the following bands:

	Number of individuals	
	2005	2004
Emolument bands		
HK$1,000,001 – HK$1,500,000	**1**	1

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2005 HK$'000	2004 HK$'000
Operating profit before taxation	**21,890**	18,876
Depreciation of fixed assets	**4,051**	3,726
Amortisation cost of trading rights and membership	**–**	542
Amortisation of goodwill	**–**	667
Amortisation of discount for investment in held-to-maturity securities	**–**	(5)
Appreciation in value of financial assets at fair value through profit or loss	**(84)**	–
Impairment charge		
– trading right	**–**	1,319
– goodwill	**861**	–
Interest expenses	**2,090**	1,542
Dividend income from listed securities	**(33)**	(281)
Loss on disposal of fixed assets (net)	**392**	162
Profit on disposal of interests in an associate	**–**	(155)
Realised gain on listed securities	**–**	(887)
Profit on disposal of financial assets at fair value through profit or loss	**(939)**	–
Written back of provision for doubtful debt and clawback	**(137)**	–
Bad debts written off	**280**	1,423
Provision for doubtful debts and clawback	**93**	699
Unrealised profit with associates	**129**	225
Increase in pledged deposits	**(67)**	(7,199)
Operating profit before working capital changes	**28,526**	20,654
Decrease/(increase) in other assets	**241**	(52)
Increase in trading securities	**–**	(27)
Decrease/(increase) in trade and other receivables	**4,773**	(35,037)
Increase/(decrease) in trade and other payables	**28,439**	(6,840)
Cash outflow generated from operations	**61,979**	(21,302)
Hong Kong profits tax paid (net)	**(7,808)**	(1,060)
Net cash Inflow/(outflow) generated from operations	**54,171**	(22,362)

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

(b) Analysis of changes in financing during the year

	Share capital including share premium	
	2005	2004
	HK$'000	HK$'000
As at 1st January	**128,898**	128,898
Repurchase of shares	**–**	–
As at 31st December	**128,898**	128,898

(c) Purchase of subsidiaries:

	2005	2004
	HK$'000	HK$'000
Net assets acquired		
Trade and other receivables	**–**	6,344
Bank balances and cash – general accounts	**–**	1,678
Deferred tax assets	**–**	183
Trade and other payables	**–**	(107)
Remaining minority interests of a subsidiary acquired	**2,899**	–
	2,899	8,098
Goodwill	**76**	1,087
	2,975	9,185
Satisfied by:		
Cash	**2,975**	9,185

The subsidiaries acquired during the year contributed revenues of HK$1,191,931 (2004: HK$705,843) and net loss of HK$1,160,530 (2004: HK$1,633,053) to the Group for the period from the acquisition to the end of the year.

30. Notes to the consolidated cash flow statement (Continued)

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

	2005 HK$'000	2004 HK$'000
Cash consideration	**(2,975)**	(9,185)
Bank balances and cash in hand acquired	**–**	2,398
Net cash outflow in respect of the purchase of subsidiaries	**(2,975)**	(6,787)

31. 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 2005 and 2004.

(b) An indirect wholly owned subsidiary of the Company, Hantec international Limited ("HIL") received a writ of summon on 28th March 2006 from two clients jointly as plaintiffs claiming for damages against HIL and two of its licensed representatives for an amount of HK$20,600,000 together with costs as a result of a number of transactions of leveraged foreign exchange trading. The directors of HIL have instructed the Company's legal representative to commence defence action. the directors, after considering the fact and the information available, and after assessing the opinion provided by the Group's legal advisors, are of the opinion that no provision is required to be made at this stage. The directors will closely monitor the development of the case and consider appropriate treatment in the financial statements should the circumstances turning adverse to HIL. As the writ of summon was issued and served to HIL after the balance sheet date, it is also considered as a post balance event.

31. Contingent liabilities (Continued)

(c) Another client of HIL commenced proceedings against HIL by way of arbitration under the Securities and Futures Ordinance (the "SFO") for an amount of HK$933,948 arising out of the alleged provision of misleading information and/or wrongful misrepresentation by a licensed representative of HIL in respect of leveraged foreign exchange trading. HIL has commenced defence on the claim. Based on the advice from the legal counsel, the directors consider that no provision is required.

(d) As at 31st December 2005, the Company had issued corporate guarantees to certain banks for credit facilities up to an amount of HK$118,000,000 (2004: HK$118,000,000) 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.

32. Lease commitments

At 31st December 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings		**Others**	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Not later than one year	**7,956**	5,213	**703**	400
Later than one year and not later than five years	**6,224**	6,945	**667**	607
	14,180	12,158	**1,370**	1,007

32. Lease commitments (Continued)

At 31st December 2005, the Group had licence fees expected to be received under non-cancellable operating leases as follows:

	2005 HK$'000	2004 HK$'000
Land and buildings		
Not later than one year	**72**	–
Later than one year and not later than five years	**36**	–
	108	–

33. Foreign exchange risk

At 31st December 2005, the Group was exposed to foreign currency exchange risk as follows:

(a) On-balance sheet net assets

	2005 HK$'000	2004 HK$'000
– PHP	**65**	62
– JPY	**6,662**	4,639
– USD	**130,874**	137,482
– EUR	**1,200**	556
– CHF	**6,312**	–
– RMB	**746**	222
– TWD	**11,485**	9,736
– SGD	**147**	–
	157,491	152,697

33. Foreign exchange risk (Continued)

(b) Off-balance sheet foreign exchange open positions

	2005 HK$'000	2004 HK$'000
Notional value of leveraged foreign exchange trading contracts to purchase foreign currencies		
– AUD	**22,322**	123,632
– CAD	**47,042**	60,106
– CHF	**37,449**	1,405,359
– EUR	**303,659**	402,782
– GBP	**803,235**	125,104
– NZD	**36,386**	11,519
– YEN	**497,328**	1,365,484
	1,747,421	3,493,986
Notional value of leveraged foreign exchange trading contracts to sell foreign currencies		
– AUD	**24,154**	129,113
– CAD	**54,600**	21,313
– CHF	**51,331**	1,369,156
– EUR	**301,720**	382,059
– GBP	**801,128**	161,911
– NZD	**31,340**	10,395
– YEN	**539,290**	1,322,489
	1,803,563	3,396,436
Notional value of option contracts to purchase foreign currencies		
– GBP	**215,531**	–
– YEN	**134,187**	–
– EUR	**–**	53,137
	349,718	53,137
Notional value of option contracts to sell foreign currencies		
– GBP	**214,531**	–
– YEN	**134,966**	–
– EUR	**–**	53,137
	349,497	53,137

34. Related party transactions

34.1 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:

	2005 HK$'000	2004 HK$'000
Net premium expenses from foreign currency option trading and broking *(Note (a)(ii))*	**(4,400)**	(7)
Commission income received *(Note (a)(ii))*	**7**	–
Financial advisory service fee received *(Note (b))*	**–**	702
Financial advisory service fee paid *(Note (c))*	**–**	(936)
Miscellaneous expenses *(Note (d))*	**(127)**	(694)
Amount payable to an associate *(Note (e))*	**5,741**	–

(a) During the year, the associate in New Zealand transacted leveraged foreign exchange trading, precious metal trading and securities 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 associates amounted to HK$139,289 million (2004: HK$126,929 million) for leveraged foreign exchange trading contracts and HK$772 million (2004: HK$187 million) for precious metal trading contracts out of the total aggregate notional amount of the transactions of HK$371,677 million (2004: HK$585,476 million) and HK$27,050 million (2004: HK$17,176 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, the commission of HK$6,808 (2004: nil) was charged on the transactions and net option premium expenses of HK$4,400,260 (2004: HK$7,067) were contributed to the turnover of the Group.

34. Related party transactions (Continued)

34.1 Related party transactions (Continued)

(b) In 2004, financial services fee of HK$702,000 was charged by the Group to the associate in New Zealand, for providing certain corporate financial advisory services. The service fee was charged at normal commercial terms.

(c) In 2004, the associate in New Zealand provided advisory services to the Group and received HK$936,000 as advisory fee. The service fee was charged at normal commercial terms.

(d) During the year, the Group incurred HK$127,000 (2004: HK$694,000) for purchasing Chinese paintings as souvenir from a company in which the Chairman of the Group held 70% equity interest. The amount was charged at normal commercial terms.

(e) The amount represents the trade payable arising from the ordinary course of business of leveraged foreign exchange trading to an associate of the Group. The amount is unsecured, interest free and repayable on demand.

34.2 Compensation of key management personnel

The remunerations of directors and other members of key management during the year were as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Salaries and other short-term employee benefits	**13,301**	12,618

The remunerations of directors and key executives were reviewed by the Remuneration Committee having regard to the performance of individuals and market trends.

35. Capital commitments

Capital commitments for system software development and fixed asset acquisition

	Group	
	2005	2004
	HK$'000	HK$'000
Contracted but not provided for	**547**	585

36. Ultimate holding company

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

37. Post balance sheet event

Save as disclosed in Note 31(b) above, there are no post balance sheet events to be disclosed, whether adjusting or non-adjusting.