

# 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 15 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 18th April 2007.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosures requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The HKICPA has issued certain new and revised HKFRSs, which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards and Interpretations, that are first effective or available for early adoption for the current accounting period of the Group.

The adoption of these new and revised HKFRSs did not result in any significant impact for current and prior accounting periods. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

## NOTES TO THE FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 2.2 Basis of preparation

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets are stated at their fair value as explained in the accounting policies set out below:

- *financial instruments classified as available-for-sale or as financial assets at fair value through profit or loss (see note 2.9)*

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

#### 2.3 Consolidation

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

##### (a) *Subsidiaries and minority interests*

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.

## NOTES TO THE FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 2.3 Consolidation (Continued)

##### (a) *Subsidiaries and minority interests (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.

Minority interests represents the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity holders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity holders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

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 dividends received and receivable.

## NOTES TO THE FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 2.3 Consolidation (Continued)

##### (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 2.7(a)).

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.

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 dividends received and receivable.

#### 2.4 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.

## NOTES TO THE FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 2.5 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.

(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.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

(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.

## NOTES TO THE FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 2.5 Foreign currency translation (Continued)

##### (c) Group companies (Continued)

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.

#### 2.6 Fixed assets

Fixed assets are stated at historical cost less accumulated 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:

Freehold land	not depreciated
Buildings	over the unexpired term of lease or estimated useful life
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 2.8).

## NOTES TO THE FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 2.7 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.

(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.

#### 2.8 Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, 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. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

## NOTES TO THE FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 2.9 Investments

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*

Financial assets at fair value through profit or loss represent financial assets held for trading. A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets held for trading are classified as current assets.

(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 2.10).

(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.

(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.



## NOTES TO THE FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 2.9 Investments (Continued)

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.

## NOTES TO THE FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 2.10 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.

#### 2.11 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.

#### 2.12 Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 2.17, trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

#### 2.13 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.

## NOTES TO THE FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 2.14 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.

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.

#### 2.15 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.

## NOTES TO THE FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 2.15 Employee benefits (Continued)

##### (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.

##### (d) Share based payments

The fair value of share options granted to employees and directors is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted. Where the grantees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company’s shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

#### 2.16 Provisions, Contingent liabilities and contingent assets

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.

## NOTES TO THE FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 2.16 Provisions, Contingent liabilities and contingent assets (Continued)

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the 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.

#### 2.17 Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the “holder”) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group’s policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income. (see note 32.2)

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2.16 if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

## NOTES TO THE FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 2.18 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 are 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, 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 which trade dates fall within the accounting year have been taken into account.

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

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

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 2.19 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(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.

#### 2.20 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.

#### 2.21 Related Parties

For the purposes of these accounts, a party is considered to be related to the Group if:

- (i) The party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) The Group and the party are subject to common control;
- (iii) The party is an associate of the Group;

# NOTES TO THE FINANCIAL STATEMENTS

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.21 Related Parties (Continued)

- (iv) The party is a member of key management personnel of the Group, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) The party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) The party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

### 2.22 Finance costs

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

### 2.23 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 and 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.

### 2.24 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.



## NOTES TO THE FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 2.25 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.

#### 2.26 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.

## NOTES TO THE FINANCIAL STATEMENTS

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### 3.1 Financial risk factors (Continued)

##### (a) *Market risk (Continued)*

###### (i) *Foreign exchange risk (Continued)*

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.

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 reviews 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 to ensure that the positions and floating loss are within the limits approved by the RMC.

##### (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 large population 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.

## NOTES TO THE FINANCIAL STATEMENTS

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### 3.1 Financial risk factors (Continued)

##### (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.

#### 3.2 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 Company 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.

## NOTES TO THE FINANCIAL STATEMENTS

### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

#### (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.

#### (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 cases, unless the possibility of an outflow of resources embodying economic benefits is remote, a contingent liability will be disclosed.

## NOTES TO THE FINANCIAL STATEMENTS

### 5 TURNOVER, OTHER REVENUE, OTHER NET INCOME/(LOSS) 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:

	2006 HK\$'000	2005 HK\$'000
Turnover		
Fees and commission	121,213	91,564
Net revenue from		
— foreign currency option trading	1,080	2,007
— foreign currency option broking	1,489	789
— bullion trading	79,638	20,701
Net premium income from insurance broking	589	450
Swap interest and foreign exchange trading revenue	99,088	77,536
Interest income	44,540	13,514
Underwriting commission	1,006	1,592
Management fee and subscription fee income	6,777	7,102
	<b>355,420</b>	215,255
Other revenue		
Dividend income from listed securities	173	33
Dividend income from available-for-sale financial assets	149	—
Other income	902	779
	<b>1,224</b>	812
Other net income/(loss)		
Net exchange gains/(losses)	4,402	(2,746)
Net realised (losses)/gains on financial assets at fair value through profit or loss	(1,557)	939
Net unrealised gains on financial assets at fair value through profit or loss	306	84
	<b>3,151</b>	(1,723)
	<b>359,795</b>	214,344

## NOTES TO THE FINANCIAL STATEMENTS

### 5 TURNOVER, OTHER REVENUE, OTHER NET INCOME/(LOSS) 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 five main geographical areas:

1. Hong Kong, Greater China (excluding Hong Kong), Switzerland and other countries — mainly consists of retail clients and high net worth clients.
2. Oceania — mainly consists of corporate clients

There were no significant transactions between the geographical segments.

In 2006, the Group has presented the turnover in respect of clients' transactions with the Group together with the corresponding transactions with its brokers in order to give a clearer presentation. The comparative figures for 2005 have been restated accordingly.

## NOTES TO THE FINANCIAL STATEMENTS

### 5 TURNOVER, OTHER REVENUE, OTHER NET INCOME/(LOSS) AND SEGMENT INFORMATION (Continued)

#### Primary reporting format — Business segments

Year ended 31st December 2006

	Leveraged foreign exchange trading/ broking 2006 HK\$'000	Securities broking 2006 HK\$'000	Commodities and futures broking 2006 HK\$'000	Corporate finance 2006 HK\$'000	Asset management 2006 HK\$'000	Financial planning/ insurance broking 2006 HK\$'000	Precious metal contracts trading/ broking 2006 HK\$'000	Unallocated 2006 HK\$'000	Total 2006 HK\$'000
Turnover	135,694	38,004	17,008	4,752	1,931	24,933	130,247	2,851	355,420
Segment results	26,634	9,902	1,093	(350)	198	(5,792)	32,131	(1,650)	62,166
Operating profit									62,166
Finance costs									(3,860)
Share of profits of associates	3,463	—	—	—	—	—	—	2,339	58,306
Profit before taxation									64,108
Income tax									(11,839)
Profit after taxation									52,269
Minority interests									—
Profit attributable to equity holders									52,269
Segment assets	336,396	161,982	79,637	11,161	5,953	38,512	103,787	28,171	765,599
Interests in associates	—	—	—	—	—	—	—	8,949	8,949
Deferred income tax assets									4,853
Total assets									779,401
Segment liabilities	207,256	97,081	58,649	77	243	4,467	47,764	7,444	422,981
Deferred income tax liabilities									653
Total liabilities									423,634
Capital expenditure	4,489	1,041	1,549	293	57	575	1,158	3,820	12,982
Depreciation	1,255	751	30	12	3	822	77	1,743	4,693
Other non-cash expenses	645	7	—	—	—	70	122	98	942

## NOTES TO THE FINANCIAL STATEMENTS

### 5 TURNOVER, OTHER REVENUE, OTHER NET INCOME/(LOSS) AND SEGMENT INFORMATION (Continued)

#### Primary reporting format — Business segments (Continued)

Year ended 31st December 2005

	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



## NOTES TO THE FINANCIAL STATEMENTS

### 5 TURNOVER, OTHER REVENUE, OTHER NET INCOME/(LOSS) 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 interests 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 of subsidiaries.

#### Secondary reporting format — Geographical segments

	Turnover		Total assets		Capital expenditure	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Hong Kong	188,487	149,057	502,244	257,645	11,697	1,999
Greater China (excluding Hong Kong)	93,920	27,389	75,831	23,314	935	2,889
Oceania	45,369	26,571	60,691	—	73	—
Switzerland	259	(615)	33,217	24,194	277	735
Other countries	27,385	12,853	93,616	83,145	—	4
	<b>355,420</b>	215,255	<b>765,599</b>	388,298	<b>12,982</b>	5,627
Interests in associates			8,949	15,480		
Deferred income tax assets			4,853	5,431		
Total assets			<b>779,401</b>	409,209		

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditures are based on the geographical location of the assets.

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

## NOTES TO THE FINANCIAL STATEMENTS

### 6 STAFF COSTS

	2006 HK\$'000	2005 HK\$'000
Salaries and allowances	72,942	51,769
Equity-settled share-based payment	588	—
Defined contribution plans (note 28)	1,854	1,475
	<b>75,384</b>	<b>53,244</b>

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

### 7 OTHER OPERATING EXPENSES

	2006 HK\$'000	2005 HK\$'000
Advertising and promotion	8,748	3,541
Auditors' remuneration	3,722	1,771
Bad debts written off	2,051	280
Bank charges	636	312
Communication expenses	3,332	1,880
Consultancy fee	7,887	2,395
Depreciation of fixed assets	4,693	4,051
Entertainment	2,204	1,988
Equipment rental expenses	5,721	5,991
Impairment of goodwill	—	861
Insurance	2,186	1,618
Legal and professional fee	3,530	3,773
Loss on disposal of fixed assets	138	455
Miscellaneous expenses	8,710	8,439
Printing and stationery	2,104	1,368
Repairs and maintenance	1,755	1,859
Staff welfare	1,387	1,523
Travelling expenses	8,999	6,733
	<b>67,803</b>	<b>48,838</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 8 FINANCE COSTS

	2006 HK\$'000	2005 HK\$'000
Interest on bank overdrafts	678	976
Interest on bank loans	3,140	1,101
Interest on other loans	24	—
Interest on obligation under finance leases	18	13
	<b>3,860</b>	<b>2,090</b>

### 9 INCOME TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged/(credited) to the consolidated income statement:

	2006 HK\$'000	2005 HK\$'000
Current taxation:		
— Hong Kong profits tax	7,834	3,281
— Overseas taxation	2,789	390
— Under provisions for taxation	160	37
Deferred taxation relating to the origination and reversal of temporary differences	1,056	(4,409)
	<b>11,839</b>	<b>(701)</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 9 INCOME TAX (Continued)

Reconciliation between tax expense and accounting profit at applicable tax rates:

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Profit before taxation (excluding share of profits of associates)	<b>58,306</b>	21,890
Notional tax on profit before taxation, calculated at the rate applicable to profits in the countries concerned	<b>10,414</b>	3,617
Tax effect of income not subject to taxation	<b>(2,308)</b>	(1,124)
Tax effect of expenses not deductible for taxation purposes	<b>1,139</b>	412
Utilisation of previously unrecognised tax losses	<b>(82)</b>	(5,542)
Tax losses for which no deferred income tax assets were recognised	<b>2,516</b>	1,899
Under-provision in prior years	<b>160</b>	37
Taxation expenses/(credits)	<b>11,839</b>	(701)

### 10 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\$22,507,523 (2005: HK\$43,083,613).

### 11 DIVIDENDS

Dividends payable to equity holders of the Company attributable to the year:

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Interim dividend paid:		
HK1.5 cents (2005: nil cents) per share	<b>5,867</b>	—
Final dividend proposed:		
HK1.5 cents (2005: nil cents) per share	<b>6,212</b>	—
	<b>12,079</b>	—

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

## NOTES TO THE FINANCIAL STATEMENTS

### 12 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to equity holders of HK\$52,269,082 (2005: HK\$27,446,846) and the weighted average number of 393,209,452 (2005: 391,130,000) ordinary shares in issue during the year.

Diluted earnings per share is calculated based on the adjusted weighted average number of 393,565,890 (2005: 391,309,385) ordinary shares which is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all potential dilutive 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 been issued assuming the exercise of the share options.

## NOTES TO THE FINANCIAL STATEMENTS

### 13 INTANGIBLE ASSETS

	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
<b>At 1st January 2005</b>					
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
<b>Year ended 31st December 2005</b>					
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
<b>At 31st December 2005</b>					
Cost	913	406	180	861	2,360
Accumulated impairment losses	—	—	—	(861)	(861)
Net book amount	913	406	180	—	1,499
<b>Year ended 31st December 2006</b>					
Opening net book amount	913	406	180	—	1,499
Acquisition of a subsidiary	—	—	—	4,973	4,973
Closing net book amount	913	406	180	4,973	6,472
<b>At 31st December 2006</b>					
Cost	913	406	180	4,973	6,472
Accumulated impairment losses	—	—	—	—	—
Net book amount	913	406	180	4,973	6,472

## NOTES TO THE FINANCIAL STATEMENTS

### 14 FIXED ASSETS

	Group					
	Freehold land and building	Leasehold improvements	Furniture & fixtures	Office & computer equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost						
At 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 and 1st January 2006	—	3,698	2,432	14,972	1,747	22,849
Additions through acquisition of subsidiaries	2,157	—	1,270	2,435	117	5,979
Additions	—	3,282	492	5,665	2,028	11,467
Disposals	—	(880)	(45)	(5,394)	—	(6,319)
Reclassification	—	—	(66)	66	—	—
Exchange difference	168	(9)	138	194	18	509
<b>At 31st December 2006</b>	<b>2,325</b>	<b>6,091</b>	<b>4,221</b>	<b>17,938</b>	<b>3,910</b>	<b>34,485</b>
Accumulated depreciation						
At 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 and 1st January 2006	—	1,510	856	9,573	1,512	13,451
Additions through acquisition of subsidiaries	115	—	348	1,814	44	2,321
Charge for the year	9	1,277	525	2,460	422	4,693
Disposals	—	(795)	(29)	(5,349)	—	(6,173)
Reclassification	—	—	(1)	1	—	—
Exchange difference	9	(11)	35	140	5	178
<b>At 31st December 2006</b>	<b>133</b>	<b>1,981</b>	<b>1,734</b>	<b>8,639</b>	<b>1,983</b>	<b>14,470</b>
Net book value						
<b>At 31st December 2006</b>	<b>2,192</b>	<b>4,110</b>	<b>2,487</b>	<b>9,299</b>	<b>1,927</b>	<b>20,015</b>
At 31st December 2005	—	2,188	1,576	5,399	235	9,398

The Group's freehold land and building is located outside Hong Kong.

## NOTES TO THE FINANCIAL STATEMENTS

### 14 FIXED ASSETS (Continued)

	Company			
	Leasehold improvements	Furniture & fixtures	Office & computer equipments	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Cost</b>				
At 1st January 2005	—	154	38	192
Additions	597	145	177	919
Disposals	—	(4)	—	(4)
<hr/>				
At 31st December 2005 and 1st January 2006	597	295	215	1,107
Additions	629	35	55	719
Disposals	—	(37)	(24)	(61)
<hr/>				
<b>At 31st December 2006</b>	<b>1,226</b>	<b>293</b>	<b>246</b>	<b>1,765</b>
<hr style="border-top: 1px dashed black;"/>				
<b>Accumulated depreciation</b>				
At 1st January 2005	—	63	15	78
Charge for the year	185	44	27	256
Disposals	—	(2)	—	(2)
<hr/>				
At 31st December 2005 and 1st January 2006	185	105	42	332
Charge for the year	309	56	45	410
Disposals	—	(23)	(7)	(30)
<hr/>				
<b>At 31st December 2006</b>	<b>494</b>	<b>138</b>	<b>80</b>	<b>712</b>
<hr style="border-top: 1px dashed black;"/>				
<b>Net book value</b>				
<b>At 31st December 2006</b>	<b>732</b>	<b>155</b>	<b>166</b>	<b>1,053</b>
<hr/>				
At 31st December 2005	412	190	173	775
<hr/>				



## NOTES TO THE FINANCIAL STATEMENTS

### 15 INVESTMENT IN SUBSIDIARIES

	Company	
	2006 HK\$'000	2005 HK\$'000
Investment at cost, unlisted shares	218,130	218,130

(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 2006:

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	40,000,100 ordinary shares of HK\$1 each, and 10,000,000 non-voting deferred shares of HK\$1 each	—	100%
Hantec Investment Consultant Limited ("HICL")	Hong Kong	Financial planning in Hong Kong	3,000,100 ordinary shares of HK\$1 each, and 5,500,000 non-voting deferred shares of HK\$1 each	—	100%

## NOTES TO THE FINANCIAL STATEMENTS

### 15 INVESTMENT IN SUBSIDIARIES (Continued)

(b) The following is a list of subsidiaries at 31st December 2006: (Continued)

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Interest held directly	Interest held indirectly
Hantec Bullion Investments Limited (“HBIL”)	Hong Kong	Trading and broking of precious metal contracts in Hong Kong	7,500,000 ordinary shares of HK\$1 each	—	100%
Hantec Asset Management Limited (“HAML”)	Hong Kong	Asset management in Hong Kong	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	1 ordinary share of US\$1 each	—	100%
Hantec Capital Limited (“HCL”)	Hong Kong	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%

## NOTES TO THE FINANCIAL STATEMENTS

### 15 INVESTMENT IN SUBSIDIARIES (Continued)

(b) The following is a list of subsidiaries at 31st December 2006: (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	Consultation services in the People’s Republic of China	US\$150,000 registered and paid-up capital	—	100%
Chinacorp Nominees Limited (“CNL”)	Hong Kong	Provide 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 (“富林”)	Taiwan	Wealth management, investment advisory and consultancy services in Taiwan	7,000,000 ordinary shares of NT\$10 each	—	100%

## NOTES TO THE FINANCIAL STATEMENTS

### 15 INVESTMENT IN SUBSIDIARIES (Continued)

(b) The following is a list of subsidiaries at 31st December 2006: (Continued)

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Interest held directly	Interest held indirectly
Hantec Financial Services (Suisse) SA (“HFSS”)	Switzerland	Trading and broking services in foreign exchange and precious metal contracts 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%	—
HT (BVI) Limited (“HTBVIL”)	British Virgin Islands	Investment holding in Hong Kong	7 ordinary shares of US\$1 each	100%	—
Macro Jess Ltd. (“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%	—
HT (Overseas) Limited (“HTOL”)	Macau	Provide administrative support services in Macau	MOP25,000 registered and paid-up capital	—	100%

## NOTES TO THE FINANCIAL STATEMENTS

### 15 INVESTMENT IN SUBSIDIARIES (Continued)

(b) The following is a list of subsidiaries at 31st December 2006: (Continued)

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Interest held directly	Interest held indirectly
Cosmos Hantec Investment (NZ) Limited (“CHI”)	New Zealand	Trading and broking services in foreign exchange and precious metal contracts in New Zealand	1,000,000 ordinary share of NZ\$1 each	—	100%
Cosmos Hantec International Investments Limited (“CHII”)	Macau	Provide administrative support services in Macau	MOP25,000 registered and paid-up capital	—	100%
Hantec (New Zealand) Investment Company Limited (“HNZICL”)	New Zealand	Dormant	10,000 ordinary share of NZ\$1 each	—	100%

\* Incorporated in the People’s Republic of China as a Wholly Foreign Owned Enterprise limited liability company.

(c) Acquisition of subsidiaries

On 26th June 2006, the Company entered into a sale and purchase agreement with the shareholders of Cosmos Hantec Investment (NZ) Limited (“CHI”), all of whom were independent third parties of the Company and its connected persons, to acquire 70% of the total issued share capital of CHI for a consideration of HK\$28.28 million. The acquisition constituted a major transaction under the Listing Rules and was completed on 29th September 2006. After the acquisition, CHI became a wholly-owned subsidiary of the Company. One of the ex-shareholders remained as a director of CHI.

## NOTES TO THE FINANCIAL STATEMENTS

### 15 INVESTMENT IN SUBSIDIARIES (Continued)

#### (c) Acquisition of subsidiaries (Continued)

The key business of CHI and its subsidiaries (the “CHI Group”) is to provide leveraged foreign exchange trading and precious metal contract trading to clients. CHI Group contributed HK\$48,913,081 turnover and HK\$14,311,168 to the Group’s profit for the year attributable to shareholders of the Company since acquisition to the balance sheet date.

Management considered the carrying value of net assets acquired from CHI Group to be a close approximation to their fair value and no fair value adjustment was required. The net assets acquired in the above acquisition and the goodwill arising are stated in note 31(b).

The carrying value of the 70% equity interest in CHI Group immediately before the date of completion and the fair value of the shares of the Company issued were as follows:

	HK\$’000
Carrying value of 70% equity interest in CHI Group	23,306
Goodwill arising from the acquisition	4,973
	28,279
Satisfied by :	
Cash	11,489
Issue of ordinary shares at fair value	16,790
	28,279

On 29th November 2006, pursuant to the sale and purchase agreement, a total of 23,000,000 shares of HK\$0.10 each were issued to the original shareholders of CHI. The market price on the date of exchange, 29th September 2006, was HK\$0.73 per share.

If the above acquisitions had occurred on 1st January 2006, total Group turnover would have been HK\$452,396,728 and profit for the year attributable to shareholders of the Company would have been HK\$60,742,060 for the year ended 31st December 2006.

## NOTES TO THE FINANCIAL STATEMENTS

### 16 INTEREST IN ASSOCIATES

	Group	
	2006 HK\$'000	2005 HK\$'000
Share of net assets at 1st January	14,932	11,897
Share of associates' results		
— profit before taxation	8,546	6,504
— taxation	(2,744)	(2,151)
— minority interest	—	(10)
	20,734	16,240
Disposal of an associate	(9,988)	—
Other equity movements	(1,673)	(549)
Exchange difference	(672)	(759)
	8,401	14,932
Share of net assets at 31st December	8,401	14,932
Goodwill on acquisition less impairment	548	548
	8,949	15,480
Investment at cost, unlisted shares	6,000	7,296

## NOTES TO THE FINANCIAL STATEMENTS

### 16 INTEREST IN ASSOCIATES (Continued)

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

Name	Particulars of issued shares held	Place of incorporation	Assets HK\$'000	Liabilities HK\$'000	Revenue HK\$'000	Profit HK\$'000	% of interest held indirectly
<b>2006</b>							
Cosmos Hantec Investment (NZ) Limited ("CHI") <sup>#</sup>	300,000 ordinary shares of NZ\$1 each	New Zealand	—	—	41,580	3,463	30%
元太外滙經紀股份有限公司 ("元太")	2,400,000 ordinary shares of NT\$10 each	Taiwan	10,622	2,221	9,274	2,339	20%
			10,622	2,221	50,854	5,802	
<sup>#</sup> From 1st January 2006 to 29th September 2006.							
<b>2005</b>							
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%
元太外滙經紀股份有限公司 ("元太")	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	



## NOTES TO THE FINANCIAL STATEMENTS

### 17 OTHER ASSETS

	Group	
	2006 HK\$'000	2005 HK\$'000
Stock Exchange stamp duty deposit	150	75
Stock Exchange Fidelity Fund deposit	100	100
Stock Exchange Compensation Fund deposit	100	100
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")	3,010	1,570
Statutory deposits with the Securities and Futures Commission	200	200
Reserve fund deposit with the SEHK Options Clearing House Limited	1,542	1,664
	<b>5,202</b>	<b>3,809</b>

### 18 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2006 HK\$'000	2005 HK\$'000
Fair value of unlisted securities held for non-trading purposes at 1st January 2006	12,089	3,267
Additions	136	6,331
Revaluation deficit transferred to equity (note 24)	(1,989)	2,491
End of the year	<b>10,236</b>	<b>12,089</b>

There were no disposals or impairment provisions on available-for-sale financial assets in 2006.

Available-for-sale financial assets include the following:

	2006 HK\$'000	2005 HK\$'000
Unlisted securities		
Equity securities traded on inactive markets and of private issuers	10,236	12,089

## NOTES TO THE FINANCIAL STATEMENTS

### 19 DEFERRED INCOME TAX

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2005: 17.5%).

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Deferred tax assets	(4,853)	(5,431)	—	—
Deferred tax liabilities	653	175	—	—
	(4,200)	(5,256)	—	—

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

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Beginning of the year	(5,256)	(865)	—	—
Effect on change in exchange rate	—	18	—	—
Deferred taxation charged/(credited) to income statement (note 9)	1,056	(4,409)	—	—
End of the year	(4,200)	(5,256)	—	—

## NOTES TO THE FINANCIAL STATEMENTS

### 19 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:

	<b>Group</b>		
	<b>Accelerated tax depreciation</b>	<b>Tax losses</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000
At 1st January 2005	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)
Charged to income statement	708	348	1,056
At 31st December 2006	1,374	(5,574)	(4,200)

	<b>Company</b>		
	<b>Accelerated tax depreciation</b>	<b>Tax losses</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000
At 1st January 2005	15	(15)	—
Charged/(credited) to income statement	3	(3)	—
At 31st December 2005	18	(18)	—
(Credited)/charged to income statement	(12)	12	—
At 31st December 2006	6	(6)	—

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK\$31,760,067 (2005: HK\$21,442,752) to carry forward against future taxable income. Tax losses have no expiry date except that losses amounting to HK\$49,118 (2005: HK\$49,293), HK\$1,478,326 (2005: HK\$1,483,586), HK\$4,625,971 (2005: HK\$4,741,661) and HK\$7,098,108 expire in 2008, 2009, 2010 and 2011 respectively.

## NOTES TO THE FINANCIAL STATEMENTS

### 20 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Listed securities:				
Equity securities — Hong Kong	16,264	1,305	1,022	733
Market value of listed securities	16,264	1,305	1,022	733

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

### 21 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Trade receivables from clients	97,787	25,973	—	—
Margin finance loans (note (c))	66,619	59,550	—	—
Margin and other trade related deposits with brokers and financial institutions (note (b))	233,654	100,264	—	—
Trade receivables from clearing houses	6,555	28	—	—
Total trade receivables, net	404,615	185,815	—	—
Rental and utilities deposits	5,788	4,778	364	245
Prepayments and other receivables	15,892	6,280	12,449	2,943
Total trade and other receivables	426,295	196,873	12,813	3,188

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

## NOTES TO THE FINANCIAL STATEMENTS

### 21 TRADE AND OTHER RECEIVABLES (Continued)

- (a) As at 31st December 2006, the aging analysis of the trade receivables was as follows:

	Group	
	2006 HK\$'000	2005 HK\$'000
Current	400,447	184,717
30–60 days	193	301
Over 60 days	3,975	797
	404,615	185,815

- (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 2006 and 2005 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. For those cash securities trading clients, it normally takes two to three days to settle after trade execution. These outstanding unsettled trades due from clients are reported as the trade receivables.
- (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.

## NOTES TO THE FINANCIAL STATEMENTS

### 21 TRADE AND OTHER RECEIVABLES (Continued)

- (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 2006, the designated accounts with SEOCH and HKFECC not otherwise dealt with in these accounts amounted to HK\$367,341 (2005: HK\$1,304,984) and HK\$14,353,770 (2005: HK\$10,140,046) 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 (2005: 7.75% to 15.75%). The effective interest rate for margins and other trade related deposits ranged from 1.75% to 5.125% per annum (2005: 1.5% to 4.3125%).

### 22 BANK BALANCES AND CASH

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Cash in hand	554	638	23	17
Bank balances				
— pledged	12,689	23,082	—	—
— general accounts	267,374	138,419	874	8,380
	<b>280,063</b>	161,501	<b>874</b>	8,380
	<b>280,617</b>	162,139	<b>897</b>	8,397
By maturity:				
Bank balances				
— Current and savings accounts	245,752	116,697	874	8,380
— Fixed deposits (maturing within three months)	34,311	44,804	—	—
	<b>280,063</b>	161,501	<b>874</b>	8,380

## NOTES TO THE FINANCIAL STATEMENTS

### 22 BANK BALANCES AND CASH (Continued)

As at 31st December 2006, bank deposits amounting to HK\$11,143,076 (2005: HK\$10,762,271) have been pledged to a bank as security for the provision of a HK\$26 million (2005: HK\$26 million) securities broking facility. In addition, bank deposits amounting to HK\$1,546,202 (2005: HK\$12,319,973) have been pledged to a financial institution as security for the provision of leveraged foreign exchange broking facilities.

As at 31st December 2006, included in the aggregate banking facilities of HK\$132 million (2005: HK\$130 million) available to the Group, HK\$120 million (2005: HK\$118 million) were granted under the Company's corporate guarantee (see note 32.2). A subsidiary of the Company which engages in securities broking had at 31st December 2006 utilised HK\$21,048,188 (2005: HK\$28,724,837) of these 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 2006, segregated trust accounts not otherwise dealt with in these accounts amounted to HK\$349,983,448 (2005: HK\$226,594,219).

#### Cash and cash equivalents

	Group	
	2006 HK\$'000	2005 HK\$'000
Cash in hand	554	638
Bank balances		
— pledged	12,689	23,082
— general accounts	267,374	138,419
<hr/>		
Cash and cash equivalents in the consolidated balance sheet	280,617	162,139
Bank balances		
— pledged	(12,689)	(23,082)
Secured bank overdrafts	(4,511)	(13,586)
Unsecured bank overdrafts	(6,538)	(5,141)
Unsecured short-term bank loan	(10,000)	(10,000)
<hr/>		
Cash and cash equivalents in the consolidated cash flow statement	246,879	110,330

## NOTES TO THE FINANCIAL STATEMENTS

### 23 SHARE CAPITAL

	2006		2005	
	No. of shares '000	Nominal value HK\$'000	No. of shares '000	Nominal value HK\$'000
Authorised				
Ordinary shares of HK\$0.10 each	<b>1,000,000</b>	<b>100,000</b>	1,000,000	100,000
Issued and fully paid				
Ordinary shares of HK\$0.10 each				
At 1st January	<b>391,130</b>	<b>39,113</b>	391,130	39,113
Shares issued	<b>23,000</b>	<b>2,300</b>	—	—
At 31st December	<b>414,130</b>	<b>41,413</b>	391,130	39,113

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

The Company issued 23,000,000 ordinary shares of HK\$0.10 each on 29th November 2006 to the original shareholders of Cosmos Hantec Investment (NZ) Limited ("CHI") as part of the purchase consideration of CHI Group. The fair value of the shares issued at the date of exchange, 29th September 2006, amounted to HK\$16.79 million (HK\$0.73 per share).



## NOTES TO THE FINANCIAL STATEMENTS

### 24 RESERVES

	Group					Total HK\$'000
	Share premium HK\$'000	Capital reserves HK\$'000	Investment revaluation reserves HK\$'000	Retained earnings HK\$'000	Exchange differences HK\$'000	
Balance at 1st January 2005	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
2004 final dividend paid	—	—	—	(9,778)	—	(9,778)
Surplus on revaluation of available-for-sale financial assets	—	—	2,491	—	—	2,491
Exchange difference	—	—	—	—	(1,828)	(1,828)
Balance at 31st December 2005	89,785	100,189	2,491	59,690	(175)	251,980
Balance at 1st January 2006, as per above	<b>89,785</b>	<b>100,189</b>	<b>2,491</b>	<b>59,690</b>	<b>(175)</b>	<b>251,980</b>
Profit for the year	—	—	—	<b>52,269</b>	—	<b>52,269</b>
2006 interim dividend paid	—	—	—	<b>(5,867)</b>	—	<b>(5,867)</b>
Shares issued	<b>14,490</b>	—	—	—	—	<b>14,490</b>
Equity settled share-based transactions	—	<b>588</b>	—	—	—	<b>588</b>
Surplus on revaluation of available-for-sale financial assets	—	—	<b>(1,989)</b>	—	—	<b>(1,989)</b>
Exchange difference	—	—	—	—	<b>2,883</b>	<b>2,883</b>
Balance at 31st December 2006	<b>104,275</b>	<b>100,777</b>	<b>502</b>	<b>106,092</b>	<b>2,708</b>	<b>314,354</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 24 RESERVES (Continued)

	Group					Total HK\$'000
	Share premium HK\$'000	Capital reserves HK\$'000	Investment revaluation reserves HK\$'000	Retained earnings HK\$'000	Exchange differences HK\$'000	
At 31st December 2006						
Company and subsidiaries	104,275	100,777	502	102,784	3,067	311,405
Associates	—	—	—	3,308	(359)	2,949
	104,275	100,777	502	106,092	2,708	314,354
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
				Company		
			Share premium HK\$'000	Retained earnings HK\$'000	Contributed surplus HK\$'000	Total HK\$'000
At 1st January 2005			89,785	24,114	133,101	247,000
Profit for the year			—	43,083	—	43,083
Dividends paid 2004 final			—	(9,778)	—	(9,778)
At 31st December 2005			89,785	57,419	133,101	280,305
Shares issued			14,490	—	—	14,490
Profit for the year			—	22,508	—	22,508
Dividends paid 2006 interim			—	(5,867)	—	(5,867)
At 31st December 2006			104,275	74,060	133,101	311,436

## NOTES TO THE FINANCIAL STATEMENTS

### 24 RESERVES (Continued)

(a) Retained earnings are represented as follows:

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Representing:				
Final dividend proposed	6,212	—	6,212	—
Others	99,880	59,690	67,848	57,419
Retained earnings as at 31st December	106,092	59,690	74,060	57,419

Included in the consolidated accumulated profits at 31st December 2006 are retained profits of \$59,128 (2005: Nil) which are required as statutory provisions in the overseas subsidiaries of the Group.

(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 and the fair value of the actual or estimated number of unexercised share options granted to employees of the Company recognised in accordance with the accounting policy adopted for share based payments in note 2.15(d).

(c) **Contributed surplus**

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

(d) **Investment revaluation reserve**

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

## NOTES TO THE FINANCIAL STATEMENTS

### 24 RESERVES (Continued)

#### (e) Distributable reserves

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

- (i) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

### 25 OBLIGATIONS UNDER FINANCE LEASE

At 31st December 2006, the Group's finance lease liabilities were repayable as follows:

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Not later than one year	<b>167</b>	121
Later than one year and not later than five years	<b>109</b>	162
	<b>276</b>	283
Future finance charges on finance leases	<b>(17)</b>	(22)
Present value of finance lease liabilities	<b>259</b>	261

The present value of finance lease liabilities is as follows:

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Not later than one year	<b>154</b>	107
Later than one year and not later than five years	<b>105</b>	154
	<b>259</b>	261

## NOTES TO THE FINANCIAL STATEMENTS

### 26 TRADE AND OTHER PAYABLES

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Trade payable to securities trading clients	73,494	21,606	—	—
Margin and other deposits payable to other clients	248,926	42,294	—	—
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	33,875	6,434	—	—
Total trade payables	356,295	70,334	—	—
Accruals and other payables	36,035	17,769	6,250	773
Total trade and other payables	392,330	88,103	6,250	773

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

The settlement terms of payable to clearing houses and securities trading clients from the ordinary course of business of broking in securities range from two to three days after the trade date of those transactions. Margin deposits received from clients for their trading of leveraged foreign exchange, precious metal contracts, commodities and futures contracts, and the balances were payable within one month.

The effective interest rate paid on trade payables as at the balance sheet date ranged from 1.75% to 4.75% per annum (2005: 1.5% to 2%).

## NOTES TO THE FINANCIAL STATEMENTS

### 27 SHORT-TERM LOAN AND BANK OVERDRAFTS

	Group	
	2006 HK\$'000	2005 HK\$'000
Secured bank overdrafts	4,511	13,586
Unsecured bank overdrafts	6,538	5,141
Unsecured short-term bank loan	10,000	10,000
Total borrowings	21,049	28,727

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\$4,511,440 (2005: HK\$13,585,172) for which client assets are held as collateral. The fair value of the collateral accepted as at 31st December 2006 amounting to HK\$11,262,720.

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

	Group	
	6 months or less HK\$'000	Total HK\$'000
<b>At 31st December 2006</b>		
Total borrowings	21,049	21,049
<b>At 31st December 2005</b>		
Total borrowings	28,727	28,727

## NOTES TO THE FINANCIAL STATEMENTS

### 27 SHORT-TERM LOAN AND BANK OVERDRAFTS (Continued)

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

	Group	
	2006	2005
Secured bank overdrafts	6%–7%	5.75%–7.75%
Unsecured bank overdrafts	8%	7.75%
Unsecured short-term bank loan	5.66%	5.79%

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

### 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:

	2006	2005
	HK\$'000	HK\$'000
Gross employer's contributions	1,963	1,605
Less: Forfeited contributions utilised to offset employer's contribution for the year	(109)	(130)
Net employer's contributions charged to income statement	1,854	1,475

## NOTES TO THE FINANCIAL STATEMENTS

### 29 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

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

The remuneration of the directors for the year ended 31st December 2006 is set out below:

Name of director	Fee HK\$'000	Salary HK\$'000	Discretionary bonuses HK\$'000	Other benefits HK\$'000	Shared- based Payment HK\$'000	Employer's	Total HK\$'000
						contribution to pension scheme HK\$'000	
Tang Yu Lap	—	1,260	1,931	—	—	12	3,203
Chung Shui Ming	113	800	171	—	106	6	1,196
Tang Ping Sum	—	1,410	155	—	—	10	1,575
Lam Ngok Fung	—	968	267	—	64	12	1,311
Sze Chong Hoi	—	231	—	—	—	1	232
Ng Chiu Mui	—	698	794	—	12	12	1,516
Poon Wai Ming	—	321	64	—	—	5	390
Law Kai Yee	—	759	223	84	64	14	1,144
Fong Wo	110	—	—	—	—	—	110
Yu Man Woon	130	—	—	—	—	—	130
Cheng Wing Chi	110	—	—	—	—	—	110
Nyaw Mee Kau	110	—	—	—	—	—	110
Yu Hon To David	85	—	—	—	—	—	85
	658	6,447	3,605	84	246	72	11,112



## NOTES TO THE FINANCIAL STATEMENTS

### 29 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

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

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

Name of director	Fee HK\$'000	Salary HK\$'000	Discretionary bonuses HK\$'000	Other benefits HK\$'000	Share-based payment HK\$'000	Employer's	Total HK\$'000
						contribution to pension scheme 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

## NOTES TO THE FINANCIAL STATEMENTS

### 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 (2005: four) whose emoluments are reflected in the analysis presented above. The emolument payable to the remaining one (2005: one) individual during the year is as follows:

	2006 HK\$'000	2005 HK\$'000
Basic salaries, other allowances and benefits in kind	1,014	984
Bonus	140	63
Share-based payments	15	—
Defined contribution plans	12	12
	<b>1,181</b>	1,059

The emoluments fell within the following bands:

	Number of individuals	
	2006	2005
Emolument bands		
HK\$1,000,001 — HK\$1,500,000	1	1

## NOTES TO THE FINANCIAL STATEMENTS

### 30 EQUITY-SETTLED SHARE-BASED TRANSACTIONS

The Company has adopted share option scheme whereby the Board of the Company may at its discretion grant to any employees, including executive directors, of the Group options to subscribe for shares of the Company.

(a) The terms and conditions of the grants that existed during the years are as follows:

	Number of instruments		Vesting conditions	Contractual life of options
	2006	2005		
Options granted to directors				
— on 2nd November 2000	—	2,850,000	3 months from the date of grant	5 years
— on 9th May 2001	—	2,300,000	3 months from the date of grant	5 years
— on 13th November 2006	<b>8,090,000</b>	—	40% to be vested on 1st May 2007, 30% to be vested on 1st May 2008, 30% to be vested on 1st May 2009	5 years after vesting
Options granted to employees				
— on 2nd November 2000	—	3,800,000	3 months from the date of grant	5 years
— on 9th May 2001	—	2,650,000	3 months from the date of grant	5 years
— on 13th November 2006	<b>11,300,000</b>	—	40% to be vested on 1st May 2007, 30% to be vested on 1st May 2008, 30% to be vested on 1st May 2009	5 years after vesting
<b>Total share options</b>	<b>19,390,000</b>	11,600,000		

## NOTES TO THE FINANCIAL STATEMENTS

### 30 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (Continued)

(b) The number and weighted average exercise prices of share options are as follows:

	2006		2005	
	Weighted average exercise price HK\$	Number of options	Weighted average exercise price HK\$	Number of options
Outstanding at the beginning of the period	0.64	11,600,000	0.64	13,950,000
Forfeited during the period	0.64	(11,600,000)	0.63	(2,350,000)
Granted during the period	0.88	19,390,000	—	—
Outstanding at the end of the period	0.88	19,390,000	0.64	11,600,000
Exercisable at the end of the period	—	—	0.64	11,600,000

There were no share options exercised during the year.

The options outstanding at 31st December 2006 and 2005 had exercise prices ranging from HK\$0.6128 to HK\$0.88 and a weighted average remaining contractual life of 6.23 years (2005: 0.3 year).

## NOTES TO THE FINANCIAL STATEMENTS

### 30 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (Continued)

#### (c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of the share options granted. The estimate of the fair value of the options granted is measured based on the Black Scholes model. The contractual life of the option is used as an input into this model.

	2006
Fair value of share options and assumptions on grant date	
Fair value	<b>HK\$0.202</b>
Share price	<b>HK\$0.88</b>
Exercise price	<b>HK\$0.88</b>
Expected volatility	<b>30.01%</b>
Option life	<b>5 years</b>
Expected dividends	<b>3.0%</b>
Risk-free interest rate (based on Exchange Fund Notes)	<b>3.754%</b>

The expected volatility is based on the daily stock price return over one year preceding the grant date, adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

During the year of 2005, no option has been granted.

## NOTES TO THE FINANCIAL STATEMENTS

### 31 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2006 HK\$'000	2005 HK\$'000
Operating profit before taxation	64,108	26,362
Depreciation of fixed assets	4,693	4,051
Appreciation in value of financial assets at fair value through profit or loss	(306)	(84)
Impairment charge of goodwill	—	861
Interest expenses	3,860	2,090
Dividend income from listed securities	(173)	(33)
Share of profits of associates	(5,802)	(4,472)
Loss on disposal of fixed assets	138	392
Loss/(profit) on disposal of financial assets at fair value through profit or loss	1,557	(939)
Write back of provision for doubtful debt and clawback	(91)	(137)
Provision for clawback	64	93
Bad debts written off	2,051	280
Unrealised profit of associates	—	129
Equity-settled share-based payment expenses	588	—
Decrease/(increase) in pledged deposits	10,393	(67)
Operating profit before working capital changes	81,080	28,526
(Increase)/decrease in other assets	(1,393)	241
(Increase)/decrease in trade and other receivables	(82,903)	4,773
Increase in trade and other payables	120,452	28,439
Cash inflow from operations	117,236	61,979
Hong Kong profits tax paid	(2,940)	(7,715)
Overseas tax paid	(2,113)	(93)
Net cash inflow from operating activities	112,183	54,171

## NOTES TO THE FINANCIAL STATEMENTS

### 31 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

#### (b) Purchase of subsidiaries:

	2006 HK\$'000	2005 HK\$'000
Net assets acquired		
Fixed assets	3,658	—
Financial assets at fair value through profit or loss	25,934	—
Trade and other receivables	148,571	—
Bank balances and cash — general accounts	42,064	—
Trade and other payables	(183,804)	—
Taxation Payable	(3,129)	—
Remaining minority interests of a subsidiary acquired	—	2,899
	<b>33,294</b>	2,899
Goodwill arising on acquisition	4,973	76
	<b>38,267</b>	2,975
Total purchase price	<b>38,267</b>	2,975
Satisfied by:		
Cash	11,489	2,975
Issue of ordinary shares	16,790	—
Interests in associate prior to the acquisition	9,988	—
	<b>38,267</b>	2,975

#### (c) Analysis of the net cash acquired on acquisition/(cash outflow on acquisition) in respect of the purchase of subsidiaries:

	2006 HK\$'000	2005 HK\$'000
Cash consideration	(11,489)	(2,975)
Cash and bank balances acquired	42,064	—
	<b>30,575</b>	(2,975)
Cash flow on acquisition net of cash acquired	<b>30,575</b>	(2,975)

## NOTES TO THE FINANCIAL STATEMENTS

### 32 CONTINGENT LIABILITIES

#### 32.1 Outstanding litigation cases

- (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 2006.

- (b) An indirect wholly owned subsidiary of the Company, Hantec International Limited ("HIL") received a writ of summons dated 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 commenced defence action and filed a defence. 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 become unfavourable to HIL.
- (c) A writ of summons dated 11th July 2006 was served to three subsidiaries of the Company as defendants by a former account executive claiming (being the plaintiff) against the three subsidiaries for a total amount of HK\$700,000 as his rightful overriding commissions together with interest and/or alternatively, damages to be assessed. The subsidiaries have instructed their legal advisors to commence defence on the claim. The legal advisors have requested the plaintiff to state clearly his claim but the plaintiff has indicated to the court that he would not answer the same and as such the legal advisors opine that it is not clear whether the plaintiff will aggressively press ahead with his claim or he will keep the case in abeyance. Up to the date of this report, there was no further development.

#### 32.2 Financial guarantees issued

- (a) As at the balance sheet date, the Company has issued corporate guarantees to certain banks for credit facilities up to an amount of HK\$120,000,000 (2005: HK\$118,000,000) granted to a subsidiary which engages in securities broking. The maximum liability is the outstanding amount utilised by the subsidiary plus all incidental costs.



## NOTES TO THE FINANCIAL STATEMENTS

### 32 CONTINGENT LIABILITIES (Continued)

#### 32.2 Financial guarantees issued (Continued)

- (b) The Company also issued corporate guarantees to certain financial institutions for foreign exchange trading and precious metal contracts trading facilities granted to the subsidiaries engaging the leveraged foreign exchange trading and precious metal trading. The maximum liability is the trading loss and related incidental costs subject, in some cases, to an overall cap on the amount of the guarantee.
- (c) As at the balance sheet date, the directors do not consider it probable that a claim will be made against the Company under any of the guarantees. The Company has not recognised any deferred income in respect of the guarantees as their fair value cannot be reliably measured and the transaction price was nil.

### 33 LEASE COMMITMENTS

At 31st December 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings		Others	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Not later than one year	7,009	7,956	623	703
Later than one year and not later than five years	2,128	6,224	331	667
	<b>9,137</b>	14,180	<b>954</b>	1,370

At 31st December 2006, the Group had licence fees expected to be received under non-cancellable operating leases as follows:

	2006 HK\$	2005 HK\$
Land and buildings		
Not later than one year	—	72
Later than one year and not later than five years	—	36
	<b>—</b>	108

## NOTES TO THE FINANCIAL STATEMENTS

### 34 FOREIGN EXCHANGE RISK

At 31st December 2006, the Group was exposed to foreign currency exchange risk as follows:

(a) On-balance sheet net assets/(liabilities)

	2006 HK\$'000	2005 HK\$'000
— PHP	10	65
— JPY	681	6,662
— USD	(6,071)	130,874
— EUR	3,735	1,200
— CHF	(8,778)	6,312
— RMB	633	746
— TWD	19,907	11,485
— SGD	—	147
— GBP	(1,254)	—
— CAD	1,688	—
— NZD	775	—
— MOP	(432)	—
— AUD	47	—
	<b>10,941</b>	<b>157,491</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 34 FOREIGN EXCHANGE RISK (Continued)

#### (b) Off-balance sheet foreign exchange open positions

	2006 HK\$'000	2005 HK\$'000
Notional value of leveraged foreign exchange trading contracts to purchase foreign currencies		
— AUD	6,756	22,322
— CAD	21,744	47,042
— CHF	2,218,175	37,449
— EUR	302,095	303,659
— GBP	2,321,255	803,235
— NZD	29,674	36,386
— JPY	3,022,169	497,328
	<b>7,921,868</b>	<b>1,747,421</b>
Notional value of leveraged foreign exchange trading contracts to sell foreign currencies		
— AUD	4,484	24,154
— CAD	54,605	54,600
— CHF	2,214,268	51,331
— EUR	292,741	301,720
— GBP	2,375,117	801,128
— NZD	3,462	31,340
— JPY	3,104,000	539,290
	<b>8,048,677</b>	<b>1,803,563</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 34 FOREIGN EXCHANGE RISK (Continued)

#### (b) Off-balance sheet foreign exchange open positions (Continued)

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Notional value of option contracts to purchase foreign currencies		
— GBP	<b>503,886</b>	215,531
— JPY	<b>478,952</b>	134,187
— EUR	<b>10,279</b>	—
	<b>993,117</b>	349,718
Notional value of option contracts to sell foreign currencies		
— GBP	<b>488,617</b>	214,531
— JPY	<b>478,952</b>	134,966
	<b>967,569</b>	349,497
Notional value of contracts to purchase precious metal under precious metal trading contracts	<b>4,396,996</b>	335,646
Notional value of contracts to sell precious metal under precious metal trading contracts	<b>4,443,796</b>	234,333

## NOTES TO THE FINANCIAL STATEMENTS

### 35 RELATED PARTY TRANSACTIONS

#### 35.1 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:

	2006 HK\$'000	2005 HK\$'000
Net premium expenses from foreign currency option trading and broking (note (a)(ii))	(1,181)	(4,400)
Commission income received (note (a)(ii))	2	7
Miscellaneous expenses (note (b))	(142)	(127)
Rental income (note (c))	78	—
Service fee income (note (d))	2,648	—
Commission expenses (note (e))	(7,775)	—
Amount payable to an associate (note (f))	—	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\$104,240 million (2005: HK\$139,289 million) for leveraged foreign exchange trading contracts and HK\$34 million (2005: HK\$772 million) for precious metal trading contracts out of the total aggregate notional amount of the transactions of HK\$703,034 million (2005: HK\$371,677 million) and HK\$189,367 million (2005: HK\$27,050 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, commission of HK\$1,690 (2005: HK\$6,808) was charged on the transactions and net option premium expenses of HK\$1,181,232 (2005: HK\$4,400,260) were included in turnover of the Group.

## NOTES TO THE FINANCIAL STATEMENTS

### 35 RELATED PARTY TRANSACTIONS (Continued)

#### 35.1 Related party transactions (Continued)

- (b) During the year, the Group incurred HK\$142,300 (2005: HK\$127,000) to purchase Chinese paintings as souvenirs from a company in which the Chairman of the Group held a 70% equity interest. The amount was charged at normal commercial terms.
- (c) An associate in New Zealand paid rental to a subsidiary of the Group in Macau of HK\$24,000 during the year. The rental income is based on a fixed fee charged on a monthly basis and on agreed terms.
- An associate in New Zealand paid rental to a subsidiary of the Group in Hong Kong of HK\$54,000 during the year. The rental income is based on a fixed fee charged on a monthly basis and on agreed terms.
- (d) An associate in New Zealand paid service fee to a subsidiary of the Group in Macau of HK\$2,648,373 during the year for supporting and administrative services rendered. The amount was charged at agreed terms.
- (e) An associate in New Zealand charged commission to a subsidiary of the Group in Hong Kong of HK\$7,774,884. The commission is calculated according to the business transacted and is on normal commercial terms.
- (f) 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.

#### 35.2 Compensation of key management personnel

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

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Salaries and other short-term employee benefits	<b>18,517</b>	13,301
Share-based payments	<b>588</b>	—
	<b>19,105</b>	13,301

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

## NOTES TO THE FINANCIAL STATEMENTS

### 36 CAPITAL COMMITMENTS

Capital expenditure in respect of acquisition of fixed assets:

	<b>Group</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Contracted but not provided for	<b>3,301</b>	547

### 37 COMPARATIVE FIGURES

The comparative figures of secondary reporting format — Geographical segments have been re-classified to conform with current year's presentation.

### 38 IMMEDIATE AND ULTIMATE HOLDING COMPANY

At 31st December 2006, the directors consider the immediate parent and ultimate controlling party of the Group to be Hantec Holdings Limited, which is incorporated in Hong Kong. This entity does not produce financial statements available for public use.

### 39 POST BALANCE SHEET EVENT

- (a) After the balance sheet date, the Company resolved to issue loan notes to certain overseas investors and professional investors up to an aggregate principal amount of US\$10 million. The loan notes are unsecured, mature on the day falling three years after the issue date of the relevant notes and bear interest of 8.5% per annum on the principal amount. Up to the date of this report, loan notes bearing an aggregate principal amount of approximately US\$5.6 million have been issued.
- (b) After the balance sheet date, the Company entered into a sale and purchase agreement to purchase a residential property at Taiwan for a consideration of NT\$82,920,000 (approximately HK\$20,730,000) for the directors of the Company to stay during their business trips to Taiwan.
- (c) After the balance sheet date, the directors proposed a final dividend of HK1.5 cents per share. Details are disclosed in note 11.

## NOTES TO THE FINANCIAL STATEMENTS

### 40 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2006

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31st December 2006 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Company's results of operations and financial position.

Of these developments, the following relate to matters that may be relevant to the Company's operations and financial statements:

		<b>Effective for accounting periods beginning on or after</b>
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies	1st March 2006
HK(IFRIC)-Int 8	Scope of IFRS 2	1st May 2006
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives	1st June 2006
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment	1st November 2006
HKFRS 7	Financial instruments: disclosures	1st January 2007
Amendments to HKAS 1	Presentation of financial statements: capital disclosures	1st January 2007