

NOTES TO CONDENSED INTERIM ACCOUNTS

1 Basis of preparation and accounting policies

The unaudited condensed consolidated interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (SSAP) 25 “Interim financial reporting” issued by the Hong Kong Society of Accountants (“HKSA”). These condensed interim accounts should be read in conjunction with the 2000 annual financial statements.

The Company was incorporated in Bermuda on 19th April 2000. Its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 1st August 2000.

Pursuant to a group reorganisation (the “Reorganisation”) in preparation for the listing of the Company’s shares on the Stock Exchange, the Company acquired the entire issued share capital of Hantec Strategic (BVI) Holdings Limited through a share swap on 10th July 2000, and subsequently became the holding company of the Group. The Company and its subsidiaries resulting from the Reorganisation have been regarded as a continuing group.

Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the consolidated financial statements have been prepared as if the Company had been the holding company of the other companies comprising the Group from 1st January 2000 rather than from the date on which the Reorganisation was completed.

The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the preparation of the Group’s annual financial statements for the year ended 31st December 2000, except that the Group has changed certain of its accounting policies following its adoption of the new and revised Statements of Standard Accounting Practice (“SSAPs”) issued by the HKSA which become effective for accounting periods commencing on or after 1st January 2001. The adoption of those SSAPs does not have any material effect on the current or prior accounting periods, except for the following:

Dividends proposed or declared after the balance sheet date

In accordance with the revised SSAP 9, the Group no longer recognises dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in Note 13, opening retained earnings at 1st January 2001 have increased by HK\$7,475,000 which is the reversal of the provision for the proposed 2000 final dividend previously recorded as a liability as at 31st December 2000 as this was declared after the year end date.

Lease commitment

The Group has adopted SSAP 14 (revised) for the first time in this interim reporting period. As a result, total future minimum operating lease commitments are disclosed instead of annual operating lease commitments under non-cancellable operating leases. Figures for the year ended 31st December 2000 are restated as shown in Note 16.

Group Results

2 Turnover and other revenues

The Group is principally engaged in the provision of brokerage services of leveraged foreign exchange and currency options trading to clients.

	Six months ended 30th June	
	2001 HK\$'000	2000 HK\$'000
Turnover		
Commission on foreign currency spot contracts	9,652	6,789
Net premium income from foreign currency option contracts	247	19,446
Swap interest and foreign exchange trading revenue	20,577	15,134
	<u>30,476</u>	<u>41,369</u>
Interest income	6,362	5,913
	<u>36,838</u>	<u>47,282</u>
Other revenues		
Other income including exchange gains	680	78
	<u>680</u>	<u>78</u>
Total revenues	<u>37,518</u>	<u>47,360</u>

No segmental analysis on revenues and contributions by operating activity is provided as the Company is currently only engaged in the activity of broking leveraged foreign exchange and foreign currency option contracts to clients.

No geographical analysis on turnover is provided as all the business is considered to be derived and transacted within Hong Kong, except for interest income which are analysed by geographical location as follows:

	Six months ended 30th June	
	2001 HK\$'000	2000 HK\$'000
Interest income derived inside Hong Kong	1,508	1,706
Interest income derived outside Hong Kong	4,854	4,207
	<u>6,362</u>	<u>5,913</u>

Group Results

3 Operating expenses

	Six months ended	
	30th June	
	2001	2000
	HK\$'000	HK\$'000
Auditors' remuneration	150	150
Depreciation of fixed assets	580	79
Interest paid to clients on margin deposits	241	530
Legal & professional fee	282	132
Rent and rates	1,608	1,355
Staff salaries	9,362	5,287
Commission and rebates	14,121	8,375
Other miscellaneous expenses	6,054	4,842
	<u>32,398</u>	<u>20,750</u>

4 Taxation

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profit for the six months ended 30th June 2001.

The amount of taxation charged to the consolidated income statement represents:

	Six months ended	
	30th June	
	2001	2000
	HK\$'000	HK\$'000
Hong Kong profits tax	<u>100</u>	<u>3,400</u>

5 Dividends

	Six months ended	
	30th June	
	2001	2000
	HK\$'000	HK\$'000
2000 Special, paid, of HK\$0.1 (1999: HK\$Nil) per ordinary share	–	10,000
2000 Interim dividend, paid of HK\$0.025 (1999: HK\$0.4878) per ordinary share	–	7,475
Final dividend declared on 28th May 2001 of HK\$0.025 per ordinary share and paid on 12th June 2001	<u>7,533</u>	–
	<u>7,533</u>	<u>17,475</u>

The previously recorded final dividends declared and paid after the balance sheet date but accrued in the accounts for the year ended 31st December 2000 was \$7,475,000. Under the Group's new accounting policy as described in Note 1, these have been written back against opening reserves as at 1st January 2001 in Note 13 and are now charged in the period in which they were declared.

Group Results

6 Earnings per share

The calculation of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of HK\$5,020,319 (2000: HK\$23,122,690).

The basic earnings per share is based on the weighted average of 300,005,525 (2000: 299,000,000) ordinary shares in issue during the six months ended 30th June 2001. The diluted earnings per share is based on 300,005,525 (2000: nil) ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average of 2,731,609 (2000: nil) ordinary shares deemed to be issued at exercisable prices of HK\$0.66 and HK\$0.6128 per share respectively if all outstanding options had been exercised.

7 Fixed assets

Opening net book amount

Additions

Depreciation

Closing net book amount

Six months ended 30th June 2001 HK\$'000
3,707
1,066
(580)
<u>4,193</u>

8 Trade and other receivables

Accounts receivable arising in the ordinary course of business of leveraged foreign exchange trading:

- clients
- recognised counterparties that are authorized institutions (Note (a) to (d))
- recognised counterparties that are not authorized institutions (Note (a) to (d))

Prepayments and other receivables

Accounts receivable arising in the ordinary course of business of leveraged foreign exchange trading:

- recognised counterparties in Hong Kong
- recognised counterparties outside Hong Kong

Unaudited 30th June 2001 HK\$'000	Audited 31st December 2000 HK\$'000
9,383	6,755
101,013	109,618
1,400	56
<u>111,796</u>	<u>116,429</u>
3,650	2,385
<u>115,446</u>	<u>118,814</u>
18,550	18,897
83,863	90,777
<u>102,413</u>	<u>109,674</u>

Group Results

- (a) The credit risk management of the Group focuses on the decision of whether to trade with a client or not. This decision is made on a client by client basis by experienced dealing directors and reviewed by compliance officers. In making this decision, the Group assesses the clients' financial background, trading records and collateral available to the Group. Normally when a client enters a foreign exchange contract, an initial cash margin equal to five per cent of the principal value of the contract is required. After a contract is entered, margin calls and liquidation of contract would be made by the staff of the Group when the price movement of the currencies of the contract becomes unfavourable to the client and triggers the prescribed levels of margin calls or position liquidation. Risk exposures as to the possibility of loss incurred by clients in excess of the margins placed are closely monitored by the Group.
- (b) A recognised counterparty is a counterparty of a licensed leveraged foreign exchange trader recognised under the Leveraged Foreign Exchange Trading Ordinance which includes authorized institutions under the Banking Ordinance.
- (c) The accounts receivable from recognised counterparties at 30th June 2001 and 31st December 2000 include margin deposits in respect of transactions in leveraged foreign exchange.
- (d) The accounts receivable arising in the ordinary course of business on leveraged foreign exchange trading are current and due on demand. There is no provision charged for bad and doubtful debts during the six months ended 30th June 2001.

9 Bank balances and cash

	Unaudited 30th June 2001 HK\$'000	Audited 31st December 2000 HK\$'000
Cash in hand	4	5
Bank balances		
– general accounts	47,030	89,042
– fixed deposits	46,800	–
– segregated trust accounts	55,640	57,157
	<u>149,474</u>	<u>146,204</u>
(a) By geographical location		
– Deposited with banks inside Hong Kong	33,575	36,441
– Deposited with banks outside Hong Kong	115,895	109,758
	<u>149,470</u>	<u>146,199</u>
(b) By maturity		
Bank balances – general accounts		
– Current and saving account	10,492	23,887
– Fixed deposits (maturing within three months)	36,538	65,155
– Fixed deposits (for more than six months)	46,800	–
	<u>93,830</u>	<u>89,042</u>

The Company has issued corporate guarantees to certain banks and financial institutions in respect of certain leveraged foreign exchange trading facilities granted to its major subsidiary, Hantec International Limited (“HIL”).

Group Results

10 Trade and other payables

	Unaudited	Audited
	30th June	31st December
	2001	2000
	HK\$'000	HK\$'000
Accounts payable arising in the ordinary course of business of leveraged foreign exchange trading:		
– clients	64,973	61,428
– recognised counterparties that are authorized institutions	<u>1,964</u>	<u>2,577</u>
	66,937	64,005
Accruals and other payables	<u>3,723</u>	<u>3,682</u>
	<u><u>70,660</u></u>	<u><u>67,687</u></u>

The accounts payable arising in the ordinary course of business of leveraged foreign exchange trading are current and payable on demand.

11 Share capital

	Authorised	
	Ordinary shares of HK\$0.1 each	
	No. of shares	
	'000	HK\$'000
At 1st January 2001 and 30th June 2001	<u>1,000,000</u>	<u>100,000</u>
	Issued and fully paid	
	Ordinary shares of HK\$0.1 each	
	No. of shares	
	'000	HK\$'000
At 1st January 2001	299,000	29,900
Exercise of options	<u>2,350</u>	<u>235</u>
At 30th June 2001	<u><u>301,350</u></u>	<u><u>30,135</u></u>

Group Results

Pursuant to the Share Options Scheme approved on 10th July 2000, details of the options granted to the directors and selected executives were:

Date granted	Exercise period	Exercise price per share	Number of ordinary shares in the options	Number of ordinary shares during the period ended 30th June 2001 subscribed	Number of ordinary shares in the options outstanding at 30th June 2001
2nd November 2000	2/2/2001– 1/2/2006	HK\$0.66	13,500,000	2,350,000	11,150,000
9th May 2001	9/8/2001 – 8/8/2006	HK\$0.6128	7,900,000	–	7,900,000

12 Share premium

	HK\$'000
At 1st January 2001	31,080
Premium of share options exercised	<u>1,316</u>
At 30th June 2001	<u><u>32,396</u></u>
At 1st January 2000	–
Premium on issue of ordinary shares	67,275
Capitalisation issue	(22,225)
Net expenses on issuance of ordinary shares	<u>(13,970)</u>
At 31st December 2000	<u><u>31,080</u></u>

13 Retained earnings

	HK\$'000
At 1st January 2001, as previously stated	33,678
Effect of adopting SSAP 9 (revised)	<u>7,475</u>
At 1st January 2001, as restated	41,153
2000 final dividend paid	(7,533)
Profit for the period	<u>5,020</u>
At 30th June 2001	<u><u>38,640</u></u>
	HK\$'000
At 1st January 2000	27,264
Profit for the year	31,364
Dividends	<u>(24,950)</u>
Retained earning at 31st December 2000	33,678
Effect of adopting SSAP 9 (revised)	<u>7,475</u>
Retained earning at 31st December 2000, as restated	<u><u>41,153</u></u>

Group Results

14 Notes to the consolidated cash flow statement

Reconciliation of operating profit to net cash outflow from operating activities

	Unaudited 30th June 2001 HK\$'000
Profit before taxation	5,120
Depreciation of fixed assets	580
Unrealised loss on investments in securities	2
Decrease in trust bank accounts	1,517
Increase in rental and utility deposits	(418)
Decrease in trade receivables	4,633
Increase in fixed deposit (for more than 6 months)	(46,800)
Increase in prepayments and other receivables	(847)
Increase in trade payables	2,932
Increase in accruals and other payables	41
	<u>(33,240)</u>

15 Contingent liabilities

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 it vigorously. It is expected that hearing by the Court will be commenced soon. The directors believe it is too early in the legal proceedings to be able to make an assessment to the likely outcome. However, 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 30th June 2001.

16 Lease commitment

At 30th June 2001, the Group had commitments under non-cancellable operating leases to make payments as follows:

	30th June 2001 Land and building HK\$'000	Restated 31st December 2000 Land and building HK\$'000
Within one year	3,619	2,330
In the second to fifth year inclusive	4,421	799
	<u>8,040</u>	<u>3,129</u>

Group Results

17 Capital commitment

As at 30th June 2001, the Group has contracted for a system software development project of HK\$507,000 (2000: nil).

18 Assets, liabilities and commitments in foreign currencies

	Unaudited 30th June 2001 HK\$'000	Audited 31st December 2000 HK\$'000
Total assets in foreign currencies included in the balance sheet	<u>237,387</u>	<u>236,564</u>
Total liabilities in foreign currencies included in the balance sheet	<u>28,023</u>	<u>40,661</u>
Total commitments to purchase foreign currencies under leveraged foreign exchange trading contracts (Note (a))	<u>999,735</u>	<u>560,241</u>
Total commitments to sell foreign currencies under leveraged foreign exchange trading contracts (Note (a))	<u>1,006,196</u>	<u>513,606</u>
Total commitments to purchase foreign currencies under option contracts	<u>—</u>	<u>1,145,617</u>
Total commitments to sell foreign currencies under option contracts	<u>—</u>	<u>1,145,617</u>

- (a) Total commitments to purchase or sell foreign currencies under leveraged foreign exchange trading contracts consist of a basket of currencies which cannot be offset against each other. From the Group's risk management perspective, individual positions in each currency (short or long) are monitored for exchange risk.

Group Results

19 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.

	Unaudited	
	Six months ended 30th June	
	2001 HK\$'000	2000 HK\$'000
Interest income from related companies (Note (a))	<u>—</u>	<u>324</u>
Interest expense paid to related parties (Note (b))	<u>—</u>	<u>(48)</u>
Administrative and Group support expenses (Note (c))	<u>—</u>	<u>(3,360)</u>
Office premises occupancy expenses (Note (d))	<u>(563)</u>	<u>(1,183)</u>

(a) Interest income was received from loans to fellow subsidiaries and the ultimate holding company in the normal course of business at commercial terms before the listing. There is no such lending transactions incurred after the listing of the Company on the Stock Exchange.

(b) Interest expense was paid to a related company of the common directorship, fellow subsidiaries and immediate family member of one of the Group's director for the margin deposits in respect of leveraged foreign exchange transactions undertaken in the normal course of business at commercial terms.

The related parties ceased to conduct the leveraged foreign exchange trading transactions through a major subsidiary of the Company, HIL since the listing of the Company on the Stock Exchange on 1st August 2000.

(c) From 1st January 2000 to 31st May 2000 certain indirect expenses such as advertisement, general administration and Group support expenditures incurred by Hantec Holdings Limited ("HHL") were charged to HIL based on its turnover proportionate to HHL Group's turnover. The total amount of such indirect expenses paid by the Group were HK\$3,359,508 for the five months period to 31st May 2000.

From 1st June 2000, the Group ceased to share such expenditures with the HHL Group.

(d) During the six months ended 30th June 2001, a total of HK\$563,276 (2000:HK\$1,183,199) was paid to HHL Group as license fee for the occupancy of the dealing room and the branches pursuant to a License Service Agreement with the HHL Group and calculated based on the actual space occupied for the period. The directors consider that the terms of the Licence Services Agreement and the rental charged are at normal commercial terms.

Group Results

20 Subsequent event

To further enlarge the Group's capital base and to meet potential needs of business diversification opportunities, the Group raised approximately HK\$43.8 million through placing of new shares of Hantec Investment Holdings Limited to strategic investors. On 4th September 2001, the Company issued 60,000,000 shares of HK\$0.1 each at HK\$0.73 per share pursuant to a private placement agreement entered by the Company with a placing agent.