

# TANRICH

Tanrich Financial Holdings Limited

敦沛金融控股有限公司\*

(Incorporated in Bermuda with limited liability)

\*For identification only



Interim Report  
2004/2005

**CONTENTS***Pages***INTERIM REVIEW**

Corporate information	2
Interim results	4
Interim dividend	4
Business review	4
Financial review	5
Staff	7
Plans and prospects	8
Subsequent events	8
Continuing disclosure requirement under rule 13.20 of the Listing Rules	9
Additional information required under the Listing Rules	10

**INTERIM REPORT**

Condensed consolidated profit and loss account	15
Condensed consolidated balance sheet	16
Condensed consolidated cash flow statement	17
Condensed consolidated statement of changes in equity	18
Notes to condensed consolidated interim accounts	19

## **CORPORATE INFORMATION**

### **Board of Directors**

#### *Executive Directors*

Mr. YIP Man Fan (*Chairman*)

Mr. KWOK Kam Hoi (*Deputy Chairman & Chief Executive*)

Mr. LEE Kit Ming, Edmund (*Managing Director, appointed on 12th January 2005*)

Mr. TSUNOYAMA Toru

Mr. LEE Chi Shing, Caesar (*appointed on 1st November 2004*)

#### *Independent Non-Executive Directors*

Mr. LAM, Andy Siu Wing, JP

Mr. SUN Shuyi (*appointed on 21st September 2004*)

Mr. YU King Tin (*appointed on 14th October 2004*)

Mr. MA Chiu Cheung, Andrew (*resigned on 30th September 2004*)

### **Audit Committee**

Mr. LAM, Andy Siu Wing, JP (*Chairman*)

Mr. SUN Shuyi (*appointed on 21st September 2004*)

Mr. YU King Tin (*appointed on 14th October 2004*)

Mr. MA Chiu Cheung, Andrew (*resigned on 30th September 2004*)

### **Company Secretary and Qualified Accountant**

Ms. TSANG Pui Yee, Vanessa

### **Registered Office**

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

### **Head Office and Principal Place of Business in Hong Kong**

16th Floor, Central Plaza  
18 Harbour Road  
Wanchai  
Hong Kong

### **Bermuda Principal Share Registrar**

Butterfield Corporate Services Limited  
Rosebank Centre  
11 Bermudian Road  
Pembroke  
Bermuda

**Hong Kong Branch  
Share Registrar**

Computershare Hong Kong Investor Services Limited  
Shops 1712 - 1716, 17th Floor  
Hopewell Centre  
183 Queen's Road East  
Hong Kong

**Principal Bankers**

Standard Chartered Bank  
The Hongkong and Shanghai Banking Corporation Limited  
Wing Lung Bank Limited  
Bank of America (Asia) Ltd.  
Bank of China (Hong Kong) Limited

**Auditors**

PricewaterhouseCoopers  
*Certified Public Accountants*  
22nd Floor, Prince's Building  
Central, Hong Kong

**Legal Adviser**

Sidley Austin Brown & Wood  
39/F Two International Finance Centre  
8 Finance Street, Central  
Hong Kong

**Listing Information**

The Stock Exchange of Hong Kong Limited  
Stock Code: 812

**Website**

[www.tanrich.com](http://www.tanrich.com)



## INTERIM RESULTS

The Board of Directors (the “Board”) of Tanrich Financial Holdings Limited (the “Company”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (“Tanrich” or the “Group”) for the six months ended 31st December 2004 with comparative figures of the previous period which are set out on pages 15 to 30 of this report.

## INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the financial year ending 30th June 2005 (2004: HK 1 cent).

## BUSINESS REVIEW

During the six months ended 31st December 2004, the Group underwent a challenging time due to keen competition in the futures broking business despite the augmentation in securities broking, securities margin financing and money lending businesses. Turnover of the Group for the six months ended 31st December 2004 was HK\$42.6 million, representing a decrease of 37.0% when compared to that of the same period of last year, and the Group recorded profit attributable to shareholders of HK\$316,000 (2003: HK\$13.1 million).

### Securities broking and margin financing

Supported by a resurgent capital market and buoyant initial public offerings activities starting from the fourth quarter of 2003, the average daily turnover of The Stock Exchange of Hong Kong Limited (the “SEHK”) was continuously up to HK\$15.2 billion for the period under review as compared with HK\$13.7 billion for the corresponding period in 2003. The Hang Seng Index hit a low of 11,933 in July 2004 and a high of 14,266 in December 2004. Our securities broking and margin financing business benefited from the dynamic and vigorous activities in the primary and secondary stock markets. As a result, its operating profit for the period under review increased remarkably by 58.3% to HK\$1.9 million (2003: HK\$1.2 million) and its total turnover increased by 6.9% to HK\$6.2 million (2003: HK\$5.8 million). Furthermore, the on-line securities trading system has recently been implemented successfully and is expected to facilitate the future trading activities of overseas clients by using this platform.

### Futures broking

As a result of keen competition in the futures broking market coupled with a significant drop in the number of account executives, the commission income derived from broking in futures contracts for the period under review amounted to HK\$27.1 million (2003: HK\$55.3 million), representing a drop of 51.0% when compared to that of the same period of last year, and resulting in an operating loss of HK\$2.6 million. We have taken immediate remedial measures including but not limited to a thorough review of the remuneration and incentive scheme, implementation of a series of training and recruitment programs in order to reinforce the sales force of futures broking business.

**Money lending**

The Group always aims to maintain prudent and conservative money lending policies and strict credit control systems in which the borrower's credit worthiness and background, as well as the collateral's quality and value, are well assessed. The Group has identified credit worthy corporate clients with a view to provide money lending services since the mid of the financial year ended 30th June 2004. As a result, the turnover of the Group's money lending business for the period under review surged remarkably to HK\$2.2 million from HK\$308,000. It also achieved an operating profit of approximately HK\$2.3 million, representing a growth of 5.6 times from HK\$416,000 in the same period of last year.

**Corporate finance**

The Group's corporate finance business is expected to be one of its core businesses in the long term even though it is still at its developing stage. Notwithstanding its turnover increased by 4.5 times to HK\$887,000 for the period under review as compared with HK\$197,000 for the corresponding period in 2003, it still suffered an operating loss of HK\$2.1 million (2003: loss of HK\$1.4 million) because more human resources were invested for expansion in this business segment. During the period under review, we have been executing two corporate finance transactions and engaging as the on-going co-sponsor and lead manager to two proposed listing companies, it is anticipated that the projects will be completed in 2005. We are dedicated to focus our main efforts towards exploring business opportunities to strengthen our corporate finance business.

**Wealth management and insurance agency**

During the period under review, the turnover of the Group's wealth management and insurance agency business grew by 6.5 times to HK\$3.2 million and its operation loss reduced by 43.7% to HK\$0.8 million when compared to that of the same period of last year. As a distributor of comprehensive financial products managed by over 30 international asset management companies, we will continue to expand our client base not only in Hong Kong but also in overseas, and focus on the high profit margin financial products in the long run in this business segment.

**FINANCIAL REVIEW****Liquidity, financial resources and gearing ratio**

The Group's financial policy is to maintain a healthy and sound financial position. The subsidiaries licensed by the Securities and Futures Commission (the "SFC") fully complied with the financial resources rules promulgated by the SFC. As at 31st December 2004, the Group had total cash and bank balances of HK\$24.9 million (30th June 2004: HK\$53.6 million), while net current assets amounted to HK\$104.7 million (30th June 2004: HK\$105.8 million). The current ratio as a ratio of current assets to current liabilities was about 2.6 times (30th June 2004: 2.4 times).

As at 31st December 2004 and 30th June 2004, the Group had no borrowings which resulted in zero gearing ratio. The gearing ratio represented the ratio of total borrowings to the total equity of the Group.

As at 31st December 2004 and 30th June 2004, the Group had aggregate banking facilities of HK\$106.0 million, composing of HK\$85.0 million, the draw down of which is subject to the pledged value of marketable securities, and HK\$21.0 million general banking facilities.

These banking facilities were secured by clients' pledged securities, certain non-trading securities of the Group, corporate guarantees issued by the Company and two of its subsidiaries. All the banking facilities were denominated in Hong Kong dollars and based on commercial floating interest rates. There were no seasonal factors affecting our borrowing requirements.

#### **Significant investments held and material acquisition and disposal of investments and subsidiaries**

As at 31st December 2004, the Group had listed equities of Hong Kong Exchanges and Clearing Limited with fair value amounted to HK\$27.2 million (30th June 2004: HK\$20.9 million). An unrealised gain of HK\$6.3 million was recorded in the Group's investment revaluation reserve during the six months ended 31st December 2004 as a result of a further boost in the Hong Kong stock market.

During the period under review, there was no material acquisition or disposal of investments and subsidiaries.

#### **Material investments**

As far as practical and up to the date of this analysis, the Group has not planned any major investments or acquisition of capital assets in the foreseeable future.

#### **Charges on assets**

As at 31st December 2004, marketable securities with an aggregate value of HK\$76.3 million (30th June 2004: HK\$8.0 million) were pledged as collateral for banking facilities, HK\$27.2 million of which were beneficially owned by the Company and a subsidiary of the Company and the remaining HK\$49.1 million marketable securities were owned by the clients of a subsidiary of the Company.

The subsidiaries of the Company pledge bank deposits as collateral to authorised financial institutions from time to time for foreign exchange deferred trading and banking facilities. As at 31st December 2004, bank deposits of HK\$1.2 million (30th June 2004: HK\$1.6 million) and HK\$1.0 million (30th June 2004: HK\$1.8 million) were pledged to authorised financial institutions for foreign exchange deferred trading and banking facilities respectively.

**Contingent liabilities**

As at 31st December 2004, the Company has guaranteed the banking facilities of HK\$105.5 million granted to two of its subsidiaries. The banking facilities were applied in their normal course of business activities. The Company has also guaranteed the liabilities of one of its subsidiaries up to an aggregate amount of not less than HK\$10 million in order to comply with the requirement of unencumbered assets contained in the Rules Governing the Listing of Securities on the Growth Enterprise Market of the SEHK (the "GEM Listing Rules").

As at 31st December 2004, an independent third party and Tanrich Futures Limited ("TFL"), an indirect wholly-owned subsidiary of the Company, were engaged in arbitration proceedings concerning, inter alia, the alleged unauthorised trading of futures contracts by an ex-employee of TFL. TFL intends to defend the said arbitration proceedings. In the event that the defence of the arbitration proceedings is unsuccessful, TFL may be held liable for an amount in the region of HK\$1.5 million to HK\$2.5 million, inclusive of interest and legal costs. Exchange of correspondence is currently in process between two parties and no conclusion was reached as at 31st December 2004. It is not currently possible to estimate the eventual outcome of the claim and based on legal advice to date, the directors of the Company consider that no provision needs to be made in the accounts.

**Exposure to fluctuations in exchange rates and related hedges**

The Group has exposure to foreign exchange fluctuation as a result of placing margin deposit in Japanese Yen with two designated futures commission merchants in Japan on behalf of its clients in Hong Kong. According to the Group's hedging policy, the Group hedges at least 80% of its net foreign exchange exposure with USD/JPY foreign exchange deferred trading in order to minimise its foreign exchange risk.

As at 31st December 2004, the Group had a total margin deposit placed with the two designated futures commission merchants of 278.3 million Japanese Yen and a bank deposit of 90.4 million Japanese Yen, total Japanese Yen being equivalent to approximately HK\$27.9 million. This amount was hedged with USD/JPY foreign exchange deferred trading equivalent to an aggregate amount of US\$3.0 million, which represented 84.0% of the Group's net foreign exchange exposure (30th June 2004: 81.2%).

**STAFF**

As at 31st December 2004, the Group had a total of 174 full-time employees. The Group operates different remuneration schemes for account executives and other supporting and general staff respectively. Account executives are remunerated on the basis of on-target-earning packages comprising base pay or drawing, commission and/or bonus. Other supporting and general staff are offered base salary and year-end discretionary bonus. The Group also provides training programs for the staff to enhance their skills and products, regulatory and compliance knowledge.



The Company has share options schemes under which the Company may grant options to eligible employees to subscribe for shares in the Company. Particulars of the share options of the Company outstanding as at 31st December 2004 are to be set out on pages 11 to 12.

## **PLANS AND PROSPECTS**

Looking ahead, despite the likelihood of Hong Kong's capital market being obsessed by certain uncertainties on the international front with the advent of an interest rate up-cycle in the US, volatility in oil prices and the macro-economic damping measures adopted by the Mainland government, activities in the primary and secondary market in Hong Kong are expected to remain buoyant and sustained by the expected continuing stable growth in the Hong Kong and Mainland economies. Tanrich is dedicated to capture all business opportunities to further expand its businesses, especially in the securities broking, securities margin financing, corporate finance and wealth management businesses.

It is important that competent people lead in every aspect of the Group's business development and planning. We are therefore pleased that two executive directors with extensive experience and professional knowledge have joined Tanrich. We believe that they will bring in innovative management know-how and other important elements to the Group and in associate with the Group's existing dedicated top management to lead Tanrich facing challenges and changes ahead in business development, internal organisational restructuring, cost rationalisation and technological innovation.

## **SUBSEQUENT EVENTS**

Subsequent to 31st December 2004, a former client of TFL has instituted legal proceedings against TFL and two of its employees (one of which was an ex-employee) concerning, inter alia, alleged improper management of the client's trading account and the client claimed for damages in the sum of approximately HK\$3 million. TFL considers that such allegations are without merit and it will defend the proceedings accordingly. In the event that the defence is unsuccessful, TFL may be held liable for the said damages, interest and legal costs in a range of HK\$5 million to HK\$6 million. TFL is in the process of filing a defence and as the case is currently at its infant stage, it is not currently possible to estimate the eventual outcome of the claim and based on legal advice to date, the directors of the Company consider that no provision needs to be made in the accounts.

Save as aforesaid, there were no significant events subsequent to 31st December 2004.

**CONTINUING DISCLOSURE REQUIREMENT UNDER RULE 13.20 OF THE LISTING RULES****Advance to a broker**

As at 31st December 2004, the Group had HK\$11.5 million (30th June 2004: HK\$15.8 million) receivable from one of its designated brokers, an independent third party, which represented 8.2% (30th June 2004: 11.6%) of the net assets of the Group. The amount represented margin deposits maintained with the designated broker by a subsidiary of the Company for trading of commodity futures on behalf of clients. The amount is unsecured, non-interest bearing and repayable on demand, subject to the margin deposit requirements.

**Advance to a client**

As at 31st December 2004, the Group had a loan receivable of HK\$20 million (the "Loan") in an ordinary course of business due from an independent third party, Gofield Property Development Limited ("GPD"), which represented 14.2% of the net assets of the Group. Pursuant to the loan agreement, the interest of the Loan in respect of each interest period is chargeable at a rate of 12 per cent per annum. If applicable, default interest will be chargeable at a rate of 18 per cent per annum. The Loan is secured by an assignment, mortgage and charge in respect of GPD's rights to certain sales receivables; a charge over certain property assets; and a personal guarantee from a director of GPD. The partial loan receivable of HK\$5 million together with the interest thereon accrued have been repaid on 18th January 2005 and the repayment date of the remaining balance of loan receivable of HK\$15 million has been extended to 18th July 2005.

**ADDITIONAL INFORMATION REQUIRED UNDER THE LISTING RULES****Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures**

As at 31st December 2004, the interests and short positions of the directors and chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were notified to the Company and the SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) and required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise required to be notified to the Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Rules Governing the Listing of Securities on the SEHK (the "Listing Rules"), were as follows:

- (a) Interests in long positions of ordinary shares of the Company

	Number of ordinary shares				Total
	Personal interests	Family interests	Corporate interests	Other interests	
Yip Man Fan	–	7,500,000 (Note 1)	–	120,000,000 (Note 2)	127,500,000
Tsunoyama Toru	22,500,000	–	–	–	22,500,000

Notes:

- Shares are held by Ms. Tang Yuk Lan, the spouse of Mr. Yip Man Fan.
- Shares are held by discretionary trusts of which Mr. Yip Man Fan and members of his family are beneficiaries.

## (b) Share options of the Company

Details of the share options outstanding as at 31st December 2004 which had been granted under the share options schemes of the Company were as follows:

## (i) Pre-listing share option scheme

	Number of share options					Sub- scription price HK\$	Grant date	Exercise period	Vesting period (from grant date)
	Held at 1st July 2004	Granted during the period	Exercised during the period	Lapsed during the period	Held at 31st December 2004				
Directors:									
Yip Man Fan	2,000,000	–	–	–	2,000,000	0.72	22nd February 2002	22nd February 2003 – 7th January 2012	1 year
Kwok Kam Hoi	2,000,000	–	–	–	2,000,000	0.72	22nd February 2002	22nd February 2003 – 7th January 2012	1 year
Tsunoyama Toru	1,950,000	–	–	–	1,950,000	0.72	22nd February 2002	22nd February 2003 – 7th January 2012	1 year
Continuous contract employees	8,800,000	–	–	390,000	8,410,000	0.72	22nd February 2002	22nd February 2003 – 7th January 2012	1 year
Bona fide consultants of the Group	290,000	–	–	170,000	120,000	0.72	22nd February 2002	22nd February 2003 – 7th January 2012	1 year
	15,040,000	–	–	560,000	14,480,000				

(ii) *Post-listing share option scheme*

	Number of share options					Sub- scriptio n price HK\$	Grant date	Exercise period	Vesting period (from grant date)
	Held at 1st July 2004	Granted during the period	Exercised during the period	Lapsed during the period	Held at 31st December 2004				
Director:									
Kwok Kam Hoi	2,000,000	-	-	-	2,000,000	0.67	27th April 2004	27th April 2005 – 26th April 2014	1 year
Continuous contract employees	13,038,000	-	-	1,382,000	11,656,000	0.67	27th April 2004	27th April 2005 – 26th April 2014	1 year
Consultants/ Advisors	3,576,000	-	-	46,000	3,530,000	0.67	27th April 2004	27th April 2005 – 26th April 2014	1 year
	18,614,000	-	-	1,428,000	17,186,000				

The share options granted are not recognised in the accounts until they are exercised. The directors are of the view that it is not appropriate to disclose the value of the options granted since any valuation of the above options would be subject to a number of assumptions and variables that would be subjective and uncertain.

Save as disclosed above, as at 31st December 2004, none of the directors or chief executive or their associates had any personal, family, corporate or other interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations which had been entered in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the SEHK pursuant to the Model Code.

### Directors' Rights to Acquire Shares or Debentures

Apart from as disclosed in the "Share options of the Company" disclosures on pages 11 to 12, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate granted to any directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse or children under 18 years of age to acquire such rights in any other body corporate.

### Substantial Shareholders' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31st December 2004, the persons (other than directors and chief executive of the Company whose interests or short positions have been disclosed above) who had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Name of shareholders	Note	Number of ordinary shares	Percentage of holding
Aceland Holdings Ltd.	1 & 2	120,000,000	60.00%
Redwood Pacific Limited	2 & 4	120,000,000	60.00%
HSBC International Trustee Limited	3 & 4	120,000,000	60.00%
Tang Yuk Lan	5	127,500,000	63.75%

*Notes:*

1. Aceland Holdings Ltd. is the trustee of The Yip Unit Trust, which holds 60% of the shareholdings of the Company.
2. Redwood Pacific Limited is the trustee of The Yip Man Fan Unit Trust, which holds 100% of those units in The Yip Unit Trust.
3. HSBC International Trustee Limited is the trustee of The Yip Man Fan Family Trust, which holds 99.99% of the units in The Yip Man Fan Unit Trust.
4. Under Part XV of the SFO, each of Redwood Pacific Limited and HSBC International Trustee Limited is taken to have an interest in the same 120,000,000 ordinary shares held by Aceland Holdings Ltd, on trust for The Yip Unit Trust. These shares therefore duplicate each other.
5. Ms. Tang Yuk Lan is the spouse of Mr. Yip Man Fan. Under Part XV of the SFO, each of Mr. Yip Man Fan and Ms. Tang Yuk Lan is taken to have an interest in the shares held by each other. These shares therefore duplicate each other.

Same as disclosed above, the Company has not been notified of any other interests or short positions representing 5% or more of the issued share capital of the Company and recorded in the register maintained under Section 336 of the SFO.

**Purchase, sale or redemption of shares**

During the six months ended 31st December 2004, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

**Model Code of the Listing Rules**

The Company has adopted the Model Code of the Listing Rules during the period under review. The Company has made specific enquiry with all directors of the Company and all of them confirmed that they have complied with the required standard set out in the Model Code for the six months ended 31st December 2004.

**Code of Best Practice**

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 31st December 2004, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules which was in force prior to 1st January 2005, except that the independent non-executive directors of the Company have no fixed terms of office, but will retire from office on rotation basis in accordance with the Company's bye-laws.

**Audit Committee**

The audit committee of the Company has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the unaudited interim accounts for the six months ended 31st December 2004, in conjunction with the external auditors.



**CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT**

		<b>Unaudited</b>	
		<b>Six months ended 31st December</b>	
		<b>2004</b>	<b>2003</b>
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	<b>42,584</b>	67,602
Other revenue		<b>1,994</b>	2,312
		<b>44,578</b>	69,914
-----			
Staff costs	3	<b>(24,677)</b>	(33,601)
Operating leases on land and buildings		<b>(3,887)</b>	(4,111)
Brokerage and agency commission		<b>(4,997)</b>	(5,722)
Recovery of/(provision for) bad and doubtful debts		<b>4</b>	(71)
Amortisation of intangible assets		<b>(30)</b>	(30)
Depreciation		<b>(2,053)</b>	(1,958)
Loss on disposal of fixed assets		<b>—</b>	(1)
Other operating expenses		<b>(8,025)</b>	(8,314)
		<b>(43,665)</b>	(53,808)
-----			
Operating profit	2	<b>913</b>	16,106
Finance costs		<b>(305)</b>	(159)
Gain on disposal of non-trading investments		<b>—</b>	145
Profit before taxation		<b>608</b>	16,092
Taxation	4	<b>(315)</b>	(2,987)
Profit after taxation		<b>293</b>	13,105
Minority interests		<b>23</b>	—
Profit attributable to shareholders		<b>316</b>	13,105
-----			
Dividends	5	<b>2,000</b>	4,000
-----			
Earnings per share – Basic (HK cents)	6	<b>0.16</b>	6.55
-----			
– Diluted (HK cents)	6	<b>0.15</b>	—
-----			



## CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited 31st December 2004 HK\$'000	Audited 30th June 2004 HK\$'000
	Note		
<b>Non-current assets</b>			
Intangible assets		500	530
Fixed assets		2,979	3,132
Other assets		2,000	2,000
Non-trading investments	7	27,165	20,896
Loans and advances	8	–	135
Deferred tax assets		3,033	3,325
		<b>35,677</b>	<b>30,018</b>
<b>Current assets</b>			
Loans and advances	8	30,097	20,238
Accounts receivable	9	96,400	101,227
Deposits, prepayments and other receivables		17,205	6,206
Cash and bank balances	10	24,895	53,586
		<b>168,597</b>	<b>181,257</b>
<b>Current liabilities</b>			
Accounts payable	11	40,246	44,934
Other payables and accrued charges		5,684	12,393
Taxation payable		17,943	18,083
		<b>63,873</b>	<b>75,410</b>
<b>Net current assets</b>		<b>104,724</b>	<b>105,847</b>
<hr/>			
<b>Total assets less current liabilities</b>		<b>140,401</b>	<b>135,865</b>
<hr/>			
<b>Financed by:</b>			
Share capital	12	20,000	20,000
Reserves	13	120,358	115,773
		<b>140,358</b>	<b>135,773</b>
Shareholders' fund			
<b>Minority interests</b>		<b>13</b>	<b>36</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities		30	56
		<b>140,401</b>	<b>135,865</b>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

	<b>Unaudited</b>	
	<b>Six months ended 31st December</b>	
	<b>2004</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Net cash used in operating activities	<b>(26,485)</b>	(9,648)
-----		
Net cash (used in)/generated from investing activities	<b>(206)</b>	9,125
-----		
Net cash used in financing activities	<b>(835)</b>	(606)
-----		
Decrease in cash and cash equivalents	<b>(27,526)</b>	(1,129)
Cash and cash equivalents at 1st July	<b>50,263</b>	58,503
-----		
Cash and cash equivalents at 31st December	<b>22,737</b>	57,374
-----		
<b>Analysis of balances of cash and cash equivalents</b>		
Cash and bank balances	<b>22,737</b>	57,374
-----		
Reconciliation with the consolidated balance sheet		
Cash and bank balances shown in the consolidated		
balance sheet	<b>24,895</b>	60,277
Less: pledged deposits to banks	<b>(2,158)</b>	(2,903)
-----		
	<b>22,737</b>	57,374
-----		

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Unaudited	
		Six months ended 31st December	
		2004	2003
	Note	HK\$'000	HK\$'000
Total equity as at 1st July		135,773	106,421
Change in fair value of non-trading investments		6,269	8,323
Reserves transferred to profit and loss account upon disposal of non-trading investments		–	(145)
		142,042	114,599
Profit for the period		316	13,105
Dividends	5	(2,000)	(2,000)
Total equity as at 31st December		140,358	125,704



## PROFIT AND LOSS ACCOUNT FOR THE SIX MONTHS ENDED 31ST DECEMBER 2003

	Futures broking HK\$'000	Securities broking HK\$'000	Securities margin financing HK\$'000	Corporate finance HK\$'000	Wealth management and insurance agency HK\$'000	Money lending HK\$'000	Proprietary trading HK\$'000	Other operations HK\$'000	Consolidated HK\$'000
<b>TURNOVER</b>	55,267	4,452	1,397	197	489	308	5,491	1	67,602
<b>RESULTS</b>	13,131	902	293	(1,417)	(1,431)	416	4,229	(17)	16,106
Finance costs									(159)
Gain on disposal of non-trading investments									145
Taxation									(2,987)
Profit attributable to shareholders									13,105

No geographical reporting is provided as less than 10% of the consolidated turnover and consolidated trading results of the Group are derived from markets outside Hong Kong.

### 3. Staff costs

	<b>Six months ended 31st December</b>	
	<b>2004 HK\$'000</b>	2003 HK\$'000
Salaries, commissions and allowances	<b>23,954</b>	30,374
Contribution to retirement benefits schemes	<b>555</b>	466
Rental expenses on staff quarter	<b>58</b>	2,622
Others	<b>110</b>	139
Staff costs include directors' emoluments	<b>24,677</b>	33,601

#### 4. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the period.

The amount of taxation charged to the consolidated profit and loss account represents:

	<b>Six months ended 31st December</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Current taxation:		
Hong Kong profits tax	<b>48</b>	2,987
Deferred taxation relating to the origination and reversal of temporary differences	<b>267</b>	–
	<hr/>	
Taxation charge	<b>315</b>	2,987

#### 5. Dividends

	<b>Six months ended 31st December</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Final dividend paid:		
HK1 cent (2003: HK1 cent) per ordinary share ( <i>Note a</i> )	<b>2,000</b>	2,000
Interim dividend proposed:		
Nil (2003: HK1 cent) per ordinary share ( <i>Note b</i> )	–	2,000
	<hr/>	
	<b>2,000</b>	4,000

*Note (a):* At a board meeting held on 12th October 2004, the Board declared a final dividend of HK1 cent (2003: HK1 cent) per ordinary share for the year ended 30th June 2004, which was paid on 29th October 2004.

*Note (b):* At a board meeting held on 21st March 2005, the Board has resolved not to declare an interim dividend for the six months ended 31st December 2004 (2003: HK1 cent).

## 6. Earnings per share

The calculations of basic and diluted earnings per share for the six months ended 31st December 2004 are based on the Group's profit attributable to shareholders of HK\$316,000 (2003: HK\$13,105,000).

The basic earnings per share is based on the weighted average number of 200,000,000 (2003: 200,000,000) ordinary shares in issue during the period. The diluted earnings per share is based on 204,579,000 (2003: 200,000,000) ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average number of 4,579,000 (2003: Nil) ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

## 7. Non-trading investments

These non-trading investments are listed equities in Hong Kong and booked at fair value in the accounts.

## 8. Loans and advances

Loans and advances are granted to the clients by the subsidiaries of the Company based on credit assessment. Their size and terms are offered subject to their pledged collateral.

## 9. Accounts receivable

	31st December 2004 HK\$'000	30th June 2004 HK\$'000
Accounts receivable arising from the ordinary course of business of broking in securities and futures contracts:		
– securities cash clients	4,914	3,102
– securities margin clients	43,793	49,037
– securities clearing house and brokers	20,289	3,227
– futures clearing house and brokers		
– Hong Kong Futures Exchange Clearing Corporation Limited (the "HKFECC")	663	601
– brokers for commodity futures contracts on Tokyo Grain Exchange and Tokyo Commodity Exchange	8,808	24,579
– brokers for commodity and currency futures contracts on other overseas exchanges	16,293	19,904
Accounts receivable arising from the provision of corporate finance advisory services	299	30
Accounts receivable arising from provision of unit trusts and insurance-linked products agency services	1,341	747
	<b>96,400</b>	<b>101,227</b>

The accounts receivable from HKFECC exclude a deposit of HK\$484,000 (30th June 2004: HK\$1,170,000) relating to the clients' monies.

**Credit policy for margin lending activities**

Accounts receivable from securities margin clients represent loans granted to the securities margin clients by a subsidiary of the Company, Tanrich Securities Company Limited ("TSCL"). These loans are collateralised by stocks pledged to TSCL.

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

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

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

CCCWG is responsible for monitoring the margin call on a daily basis. It reviews the overall risk and credit control on a bi-weekly basis. CCC decides the actions to be taken for the clients, should the securities margin clients fail to meet the margin call, based on the margin call amount, the pledged securities value, the clients' credit worthiness and the overdue period.

The directors also monitor the margin call amount. Provision is made for loans which are considered to be doubtful.

**Settlement terms**

Accounts receivable arising from the ordinary course of business of broking in index, commodity and currency futures contracts represent the margin deposits maintained with futures clearing house or brokers to meet the margin requirements of the open contracts. Margin calls from the clearing house and brokers are settled on a daily basis. The excess amounts over the required margin deposits stipulated are repayable on demand.

Accounts receivable from securities margin clients are secured by clients' pledged securities, repayable on demand and bear interest at commercial rates. As at 31st December 2004 and 30th June 2004, included in the accounts receivables from securities margin clients were overdue margin calls of HK\$10,241,000 and HK\$8,628,000 respectively.



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

	<b>31st December 2004 HK\$'000</b>	<b>30th June 2004 HK\$'000</b>
Within 30 days	<b>1,461</b>	4,639
31 – 90 days	<b>3,702</b>	991
91 – 180 days	<b>1,177</b>	–
Over 180 days	<b>3,901</b>	2,998
	<b>10,241</b>	8,628

No provision was made for overdue margin calls as at 31st December 2004 and 30th June 2004.

The settlement terms of accounts receivable arising from the ordinary course of business of broking in securities transactions are two days after the trade date of those transactions. As at 31st December 2004 and 30th June 2004, included in the accounts receivable from securities cash clients were receivables not settled on settlement date of HK\$68,000 and HK\$906,000 respectively.

The ageing analysis of the accounts receivable from securities cash clients which were not settled on settlement dates was as follows:

	<b>31st December 2004 HK\$'000</b>	<b>30th June 2004 HK\$'000</b>
Within 30 days	–	142
31 – 90 days	–	84
91 – 180 days	<b>68</b>	–
Over 180 days	–	680
	<b>68</b>	906

No provision was made for these receivables not settled on settlement dates as at 31st December 2004 (30th June 2004: HK\$650,000).

The accounts receivable arising from the provision of corporate finance advisory services are repayable within 30 days.

The accounts receivable arising from the provision of unit trusts and insurance-linked products agency services are repayable within 30 days.

**10. Cash and bank balances**

The subsidiaries of the Company pledge bank deposits as collateral to authorised financial institutions from time to time for foreign exchange deferred trading and banking facilities. At 31st December 2004, they have pledged bank deposits of HK\$1,167,000 (30th June 2004: HK\$1,560,000) and HK\$991,000 (30th June 2004: HK\$1,763,000) to authorised financial institutions for foreign exchange deferred trading and banking facilities respectively.

The subsidiaries of the Company maintain trust accounts with authorised financial institutions as a result of their normal business transactions. At 31st December 2004, trust accounts not otherwise dealt with in these accounts amounted to HK\$64,875,000 (30th June 2004: HK\$41,789,000).

**11. Accounts payable**

	<b>31st December 2004 HK\$'000</b>	30th June 2004 HK\$'000
Accounts payable arising from the ordinary course of business of broking in securities and futures contracts:		
– securities cash clients	<b>18,523</b>	4,366
– securities margin clients	<b>2,404</b>	2,150
– securities brokers	<b>26</b>	–
– futures clients	<b>19,255</b>	38,308
Accounts payable arising from the provision of unit trusts and insurance-linked products agency services	<b>38</b>	110
	<b>40,246</b>	44,934

The settlement terms of accounts payable from the ordinary course of business of broking in securities in respect of cash clients and margin clients are two days after the trade date of those transactions.

The accounts payable arising in the ordinary course of business of broking in index, commodity and currency futures contracts represent the margin deposits received from clients for their trading of futures contracts. The excess over the required margin deposit stipulated are repayable to clients on demand.

The accounts payable arising from the provision of unit trusts and insurance-linked products agency services are repayable within 30 days.

The accounts payable are stated net of clients' segregated assets of HK\$65,359,000 (30th June 2004: HK\$42,959,000).

## 12. Share capital

	Ordinary Share of HK\$0.1 each	
	<i>No. of shares</i>	<i>HK\$'000</i>
Authorised:		
At 30th June 2004 and 31st December 2004	1,000,000,000	100,000
Issued and fully paid:		
At 30th June 2004 and 31st December 2004	200,000,000	20,000

## 13. Reserves

	Investment revaluation reserve <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st July 2003	13,646	17,137	40,836	14,802	86,421
Surplus on revaluation of non-trading investments	8,323	–	–	–	8,323
Reserves transferred to profit and loss account upon disposal of non-trading investments	(145)	–	–	–	(145)
Profit for the period	–	–	–	13,105	13,105
Dividends ( <i>Note 5</i> )	–	–	–	(2,000)	(2,000)
At 31st December 2003	21,824	17,137	40,836	25,907	105,704
At 1st July 2004	20,716	17,137	40,836	37,084	115,773
Surplus on revaluation of non-trading investments	6,269	–	–	–	6,269
Profit for the period	–	–	–	316	316
Dividends ( <i>Note 5</i> )	–	–	–	(2,000)	(2,000)
At 31st December 2004	26,985	17,137	40,836	35,400	120,358

#### 14. Related party transactions

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the other party or exercise significant influence over the party in making financial and operation decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

During the period, the Group had the following transactions with a related company, Tanrich (Hong Kong) Holdings Limited ("THKHL") and its subsidiary, Union Light Investment Limited ("ULIL"). These related companies are all controlled by a combination of certain directors of the Company. These transactions arose in the ordinary course of the Group's business.

		<b>Six months ended</b>	
		<b>31st December</b>	
	<i>Note</i>	<b>2004</b>	2003
		<b>HK\$'000</b>	HK\$'000
Depreciation	(a)	<b>1,132</b>	1,123
Management fee income	(b)	<b>(480)</b>	(480)
Rental expenses on staff quarter	(c)	–	2,580

- (a) The amount represented the depreciation charge paid to THKHL that should be borne by the Group for its use of fixed assets and share of renovation expenses. The depreciation charge was calculated on the direct cost allocation method.
- (b) The amount represented the staff cost charged to THKHL at HK\$80,000 per month for the management and personnel supportive services provided by the Group.
- (c) The amount represented the rental expenses paid by a subsidiary of the Company to ULIL for the provision of accommodation to a director of the Company. The monthly rental of the premise was determined with reference to open market rentals. This tenancy agreement was terminated on 30th June 2004.

## 15. Commitments and contingent liabilities

## (i) Commitments under operating leases

As at 31st December 2004, the Group had future aggregate minimum lease payments under non-cancellable operating lease in respect of office premises as follows:

	31st December 2004 HK\$'000	30th June 2004 HK\$'000
Not later than one year	5,373	8,493
Later than one year and not later than five years	3,909	5,642
	<b>9,282</b>	<b>14,135</b>

## (ii) Capital commitments for property, plant and equipment

	31st December 2004 HK\$'000	30th June 2004 HK\$'000
Contracted but not provided for	—	503

## (iii) Other commitments

As at 31st December 2004, the Company has guaranteed the banking facilities of HK\$105.5 million (30th June 2004: HK\$105.5 million) granted to two of its subsidiaries. The banking facilities were applied in their normal course of business activities. The Company has also guaranteed the liabilities of one of its subsidiaries up to an aggregate amount of not less than HK\$10 million (30th June 2004: Nil) in order to comply with the requirement of unencumbered assets contained in the GEM Listing Rules.

**(iv) Off-balance sheet financial instruments**

The following table provides a detail breakdown of the contractual or notional amounts and the fair values of a subsidiary of the Company's off-balance sheet financial instruments outstanding at 31st December 2004:

	<b>Contract/notional amounts</b> <i>HK\$'000</i>	<b>Fair value assets/ (liabilities)</b> <i>HK\$'000</i>
As at 31st December 2004		
Equity index futures contracts – Trading	2,133	(7)
Currency futures contracts – Trading	221,411	(1,727)
Foreign exchange deferred trading – Hedging	23,331	162
As at 30th June 2004		
Equity index futures contracts – Trading	6,760	(106)
Currency futures contracts – Trading	68,950	(61)
Foreign exchange deferred trading – Hedging	31,200	133

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

Market risks associated with the futures contracts arise due to the possible movements in indices and securities values underlying these instruments. Other market and credit risks include the possibility that there may be an illiquid market for the futures contracts, that the changes in the values of the futures contracts may not directly correlate with changes in the values of the underlying currencies, commodities, indices, or securities, or that the counterparty to a future contract defaults on its obligation to perform under the terms of the contract.

**(v) Contingent liability**

As at 31st December 2004, an independent third party and TFL, an indirect wholly-owned subsidiary of the Company, were engaged in arbitration proceedings concerning, inter alia, the alleged unauthorised trading of futures contracts by an ex-employee of TFL. TFL intends to defend the said arbitration proceedings. In the event that the defence of the arbitration proceedings is unsuccessful, TFL may be held liable for an amount in the region of HK\$1.5 million to HK\$2.5 million, inclusive of interest and legal costs. Exchange of correspondence is currently in process between two parties and no conclusion was reached as at 31st December 2004. It is not currently possible to estimate the eventual outcome of the above claim and based on legal advice to date, the directors of the Company consider that no provision needs to be made in the accounts.

**16. Subsequent events**

Subsequent to 31st December 2004, a former client of TFL has instituted legal proceedings against TFL and two of its employees (one of which was an ex-employee) concerning, inter alia, alleged improper management of the client's trading account and the client claimed for damages in the sum of approximately HK\$3 million. TFL considers that such allegations are without merit and it will defend the proceedings accordingly. In the event that the defence is unsuccessful, TFL may be held liable for the said damages, interest and legal costs in a range of HK\$5 million to HK\$6 million. TFL is in the process of filing a defence and as the case is currently at its infant stage, it is not currently possible to estimate the eventual outcome of the claim and based on legal advice to date, the directors of the Company consider that no provision needs to be made in the accounts.

Save as aforesaid, there were no significant events subsequent to 31st December 2004.

On behalf of the Board

**YIP Man Fan**

*Chairman*

Hong Kong, 21st March 2005