

TANRICH

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TANRICH FINANCIAL HOLDINGS LIMITED
敦沛金融控股有限公司

ANNUAL REPORT 2003

Contents

2	CORPORATE INFORMATION
5	CHAIRMAN'S STATEMENT
8	MANAGEMENT DISCUSSION AND ANALYSIS
16	DIRECTORS' REPORT
29	DIRECTORS AND SENIOR MANAGEMENT
34	AUDITORS' REPORT
	CONSOLIDATED FINANCIAL STATEMENTS
35	Consolidated profit and loss account
36	Consolidated balance sheet
37	Balance sheet
38	Consolidated statement of changes in equity
39	Consolidated cash flow statement
41	Notes to the accounts
74	FIVE YEAR FINANCIAL SUMMARY
75	NOTICE OF ANNUAL GENERAL MEETING

Board of Directors*Executive Directors*

Mr. Yip Man Fan

Mr. Kwok Kam Hoi

Mr. Toru Tsunoyama

Mr. Sin Wai Chiu, Joseph (resigned on 24th July 2003)

Independent non-executive Directors

Mr. Lam, Andy Siu Wing, J.P.

Mr. Ma Chiu Cheung, Andrew

Audit committee

Mr. Lam, Andy Siu Wing, J.P.

Mr. Ma Chiu Cheung, Andrew

Company secretary

Mr. Io Cheok Kei Rudy

Registered office

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

**Head office and principal
place of business**

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
Rooms 1901-1905, 19th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

Principal bankers

The Hongkong and Shanghai Banking
Corporation Limited
Wing Lung Bank Limited
Standard Chartered Bank
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

Simmons & Simmons
International Law Firm
35th Floor, Cheung Kong Centre
2 Queen's Road Central
Hong Kong

Website

www.tanrich.com



Comprehensive Financial Services

Economic environment for the year ended 30th June 2003 was not in anyway better than 2002. People in Hong Kong encountered difficulties and despair unseen for years. Not to mention that, the SARS outbreak had brought Hong Kong and the region's economy to its knees. But all that was over in the middle of 2003 and hope is now on the horizon.

Amid the economic hardships in Hong Kong and in other parts of the world, Tanrich Financial Holdings Limited ("Tanrich" or the "Group") was able to record a modest profit of HK\$10.2 million for the year ended 30th June 2003 (2002: HK\$30.3 million). This was achieved by a series of stringent cost control measures and the determination of both the management and staff. More importantly, the result has clearly demonstrated the strength and competitiveness of Tanrich in the financial services industry in Hong Kong.

For the year ended 30th June 2003, turnover amounted to HK\$126.7 million, a decrease of 21.5% over the corresponding period in 2002, while operating profit recorded HK\$12.9 million which also declined 66.8% over last year's HK\$38.9 million. Profit attributable to shareholders recorded HK\$10.2 million (2002: HK\$30.3 million) and earnings per share was HK5.1 cents (2002: HK17.7 cents).

The Board of Directors recommended the payment of a final dividend of HK1 cent per share for the year ended 30th June 2003 (2002: HK4.5 cents), together with interim dividend of HK1 cent per share, the total dividend for the year would be HK2 cents per share.

While maintaining its edge in the Japanese commodity futures markets Tokyo Grain Exchange ("TGE") and Tokyo Commodity Exchange ("TOCOM"), the Group has expanded into the US commodity and currency futures market last year and launched new products in order to diversify its income stream. The growth in turnover in the US commodity and currency futures market was very promising and reached HK\$29.3 million for the year, which represented 10.5 times over HK\$2.8 million last year.



Mr. Yip Man Fan
Founder & Chairman

Chairman's Statement

In the coming year, along the vision of becoming a comprehensive financial services provider in Hong Kong, the Group will further solidify its market niche in Japanese commodity futures market and will continue expanding into the US commodity and currency futures markets while offering wider range of products. On the other hand, the Group will also continue expanding the securities broking and share margin financing as well as corporate finance business. Last but not the least, the Group will further develop its asset management and insurance business. Needless to say, the impressive achievements would not be possible without competent staff and management. The Group will therefore continue its policy in recruiting high quality staff and providing them with professional trainings.

On behalf of the Board, I would like to express my appreciation to the staff and the management for their continuous dedication and commitment that contributed to last year's success in such a challenging operating environment. Lastly, we would like to thank our valuable shareholders, customers for their valuable support and encouragement and, more importantly, we would like to share with you our success in the years to come.

On behalf of the Board,

Yip Man Fan

Chairman

Hong Kong, 18th September 2003



Comprehensive Financial Services



OVERVIEW

During the year under review, Hong Kong's economy has reached its lowest level in decades, plagued by unseen high unemployment rates, world wide recession and weak investment sentiment. The situation was further compounded by the SARS outbreak. However, the Group's strategic plan of becoming a comprehensive financial services group in Hong Kong was gradually bearing fruit, although it was hindered by the general weak economy both local and overseas. With stringent cost control measures and the determination of management and staff, the Group managed to record a modest profit even under this challenging business and economic environment.

Japan has been operating its TGE and TOCOM since 1952 and 1984 respectively and is recognised as the second largest commodity futures market in the world. The Group is the largest broker for Japanese commodity futures in Hong Kong in terms of trading volume. Over the years, Tanrich and the Japanese commodity futures market have grown together in expanding the commodity futures market in Hong Kong. Nevertheless, due to the sluggish economy, turnover of TGE futures in Hong Kong for the year ended 30th June 2003 dropped to 237,781 contracts as compared to 369,740 contracts for the corresponding period in 2002. However, Tanrich still maintained its leading position, which preponderated 80% of market share of TGE futures in Hong Kong in terms of trading volume for the year ended 30th June 2003.

OPERATION REVIEW

For the year ended 30th June 2003, the Group recorded a decrease in turnover of 21.5%, from HK\$161.3 million to HK\$126.7 million. Profit from operating activities declined by 66.8% to HK\$12.9 million from HK\$38.9 million while profit attributable to shareholders declined by 66.3% to HK\$10.2 million as compared to the last year's corresponding period of HK\$30.3 million. Despite the decrease in profit, the Group was actually one of the few local financial services companies that managed to achieve a profit in this difficult business environment.

Shareholders' fund declined by 3.4% to HK\$106.4 million as compared to last year's HK\$110.2 million. For the year ended 30th June 2003, basic earnings per share was HK\$5.1 cents. The underneath is a detailed description of the Group's main business activities in the past year.



FUTURES

For the financial year under review, the Group's futures business contributed to 93.5% of its total turnover. The Group's turnover of TGE futures decreased to 190,898 contracts as compared to 334,556 contracts for the same period in 2002, while turnover of its TOCOM futures increased to 30,470 contracts as compared to 20,406 contracts for the same period in 2002. Despite the challenging operating environment, the Group managed to maintain its unrivaled market leadership position in Japanese commodity futures market in Hong Kong.

During the year under review, the Group has also increased its efforts in expanding business in the US commodity and currency futures market. For the financial year, turnover in the US commodity and currency futures market increased to 75,233 contracts as compared to 7,210 contracts for the same period in 2002, representing a growth of 9.4 times. The turnover from the US commodity and currency futures market is expected to grow gradually in the coming years and bring in encouraging profit for the Group.

The Group strives to maintain its market niche in the futures segment in Hong Kong by recruiting more professionals and experts and holding regular trainings for the Group's account executives with an aim to provide excellent customer services.

SECURITIES BROKING AND MARGIN FINANCING

Cost reduction measures were implemented during the year. An unprofitable branch was closed and staff number of these business was reduced. Overheads were down significantly. Due to the sluggish stock market for most part of the year and the implementation of fully negotiable brokerage commission in April 2003, the securities broking operation performed about the same as compared to last year. Securities broking recorded HK\$3.6 million in turnover as compared to last year's HK\$3.9 million and represented a slight decrease of 7.7%.

Securities margin financing achieved a turnover of HK\$2.1 million as compared to the corresponding period in 2002 of HK\$1.5 million, which represented an increase of 40%. Following last year's strategy, the Group will focus its business on institutional, corporate and high value clients. The Group always maintains a prudent and conservative margin financing policy and a strict control on margin lending in an effort to control the risk level while better protecting its customers. For the year under review, securities broking and margin financing contributed to 4.5 % in aggregate to the Group's total turnover.



ASSET MANAGEMENT

Wealth management has grown to become a main focus for people from every walk of life. Investors utilise asset management to diversify their investment portfolio as well as to protect and manage their assets. The Group distributes over 1,000 funds, including global equity, fixed income, forex and derivatives, etc., that are managed by over 30 international asset management companies. In addition to providing financial planning services and insurance-linked products, the Group continuously launches new products to cater for customer needs. During the year under review, the Group's asset management business contributed to 3.9% of the total turnover and reached HK\$4.9 million, which represented 2.5 times of last year's HK\$2.0 million.

CORPORATE FINANCE

The Group's corporate finance business commenced its operations in 1999, offering financial services including financial advisory, fund raising, underwriting and sub-underwriting as well as placement activities. In the latter part of the year, a team of competent corporate financial professionals had been recruited with a plan to further expand the business.

Due to the stagnant capital market and weak investment sentiment for most part of the year, the operation generated a turnover of HK\$145,000 for the year as compared to HK\$844,000 of last corresponding period, which represented a decrease of 82.8%. Nonetheless, the capital market should definitely be on an increasing trend in the coming year and turnover in this operation should hence bounce back and improve considerably.

INTERNAL CONTROL AND RISK MANAGEMENT

The Group has stipulated a prudent strategy in internal control and risk management. In today's volatile financial markets, prudent control procedures and stringent internal controls are indispensable key success factors. During the year, the Group has allocated consistent time, efforts and resources in minimising the Group's risk exposure and maximising returns to customers and shareholders.



RISK CONTROL COMMITTEE

The committee, comprising of members of the Board of Directors, the financial controller of the Group, the manager of legal and compliance department of the Group has been established to develop and implement business risk minimisation policies and procedures so as to confine business risks, formulate credit and risk control policies and procedures of Tanrich Securities Company Limited ("TSCL"), an indirect wholly-owned subsidiary of the Company.

CREDIT CONTROL COMMITTEE

Comprising of members of the Board of Directors, the financial controller of the Group and the sales director of TSCL, the main task of the Credit Control committee is to administer the credit and control policies and procedures formulated by the risk control committee.

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

In addition to the proceeds from the Company's initial public offering ("IPO") last year, the Group's operations have generated stable and adequate internal cash flow for working capital of the Group. As at 30th June 2003, the Group had cash on hand and bank balances that totalled to HK\$62.8 million (2002: HK\$74.7 million), while net current asset amounted to HK\$76.4 million (2002: HK\$87.2 million). The strong liquidity of the Group is manifested in the current ratio, as a ratio of current assets to current liabilities, of 2.0 times which showed improvement over last year's 1.8 times.

Due to the Group's healthy and strong financial position, the Group minimised its bank borrowings and used internal cash to fund its operations. As at 30th June 2003, the Group had no bank borrowings (2002: HK\$0.2 million, repayable on demand) which resulted in zero gearing ratio (2002: 0.2%). The gearing ratio was calculated by dividing the Group's total borrowings by its total equity.

As at 30th June 2003, the Group had aggregate banking facilities of HK\$101 million, composing of HK\$85 million, the draw down of which is subject to the pledged value of marketable securities, and HK\$16 million general banking facilities, as compared to HK\$86 million in year 2002.



LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO *(Continued)*

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

SIGNIFICANT INVESTMENTS

During the financial year, the Group acquired 1,089,000 listed securities of BOC Hong Kong (Holdings) Limited at HK\$8.5 per share for long-term investment. As at 30th June 2003, together with 1,306,000 listed securities of Hong Kong Exchanges and Clearing Limited on hand, the aggregate fair value of these securities amounted to HK\$23.2 million (2002: HK\$16.8 million), which represented an increase of 38.1% over last year's corresponding period. An unrealised loss of HK\$3.0 million was recorded in the Group's investment revaluation reserve during the financial year ended 30th June 2003 as a result of further decline in the Hong Kong stock market, compared to last year's unrealised loss of HK\$1.4 million.

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.

CHARGE ON GROUP ASSETS

Marketable securities with an aggregate value of HK\$14.6 million (2002: HK\$10.3 million) were pledged as collateral for banking facilities. These marketable securities were beneficially owned by subsidiaries of the Company.

CONTINGENT LIABILITIES

As at 30th June 2003, the Company has undertaken to guarantee the banking facilities of HK\$100.5 million granted to two of its subsidiaries. The banking facilities were applied in their normal courses of business activities.

**CONTINGENT LIABILITIES** *(Continued)*

A subsidiary of the Company has received a claim for compensation in respect of disputed trades. As the arbitration proceedings are at a preliminary stage, it is not currently possible to estimate the eventual outcome of the claim and based on legal advice to date, the directors consider that no provision needs to be made in the financial statements.

FOREIGN EXCHANGE AND CURRENCY RISKS

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 foreign exchange risk.

During the year, the Group's total margin deposit placed with the two designated futures commission merchants was 696 million Japanese Yen and had a bank deposit of 192 million Japanese Yen, total Japanese Yen being equivalent to HK\$57.7 million. This amount was hedged with USD/JPY foreign exchange deferred trading equivalent to an aggregate amount of US\$6.5 million, which representing 87.8% of the Group's net foreign exchange exposure (2002: 88.6%).

USE OF PROCEEDS FROM IPO

Following the successful listing of the Company's shares on the Main board of the Stock Exchange of Hong Kong Limited (the "SEHK") on 30th January 2002, the net proceeds of the Share Offer, after deduction of related expenses, amounted to HK\$37 million. We have used the listing proceeds as follows:

HK\$15 million was applied in acquisition of new issued shares of TSCL to expand the Group's securities broking and share margin financing business;

**USE OF PROCEEDS FROM IPO** *(Continued)*

HK\$10 million was applied in acquisition of new issued shares of Tanrich Capital Limited ("TCL"), an indirect wholly-owned subsidiary of the Company to expand the Group's corporate finance business;

HK\$5 million was applied in acquisition of new issued shares of Tanrich Asset Management Limited ("TAML"), an indirect wholly-owned subsidiary of the Company to expand the Group's asset management and insurance broking business;

The balance of HK\$7 million was loaned by the Company to TSCL as working capital.

STAFF

As at 30th June 2003, the Group had a total of 200 full time employees. The Group operates different remuneration schemes for account executives and other supporting and general staff. Account executives are remunerated on the basis of on-target-earning packages comprising base pay or draw, commission and/or bonus. Other supporting and general staff are offered basic salary and year-end discretionary bonuses subject to the business results of the Group. Employees' remuneration excluding directors' emoluments amounted to HK\$55.1 million for the year (2002: HK\$71.1 million). The Group ensures that the remuneration paid to its employees is competitive and employees are rewarded within the general framework of the Group's salary and bonus system. The Group also provides training programmes for the staff to enhance their skills and products, regulatory and compliance knowledge.



OUTLOOK

Financial year 2002-2003 was a difficult year for most companies in Hong Kong, but the Group still recorded a modest profit. This clearly demonstrated our strength and competitiveness. In the coming year, Tanrich will not only strive to maintain its leading position in the Japanese commodity futures market but to step up its effort in the US commodity and currency futures market, as well as expand business in corporate finance, securities broking and asset management.

In addition, Tanrich will constantly reinforce the quality of internal control measures to minimise risk exposure and will keep pace with the advancement in information technologies in order to enhance information systems that can improve the overall efficiency and customer service standards.

With a competent and visionary management team and the continuous recruitment of experts and professionals, the Group is well equipped to ascend to higher horizons and consolidate itself as a comprehensive financial services group in Hong Kong.

The directors submit their report together with the audited accounts of the Company and its subsidiaries for the year ended 30th June 2003.

Principal Activities

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in note 17 to the accounts.

An analysis of the Group's performance for the year by business segments is set out in note 3 to the accounts. The activities of the Group are mainly carried out in Hong Kong.

Results and Appropriations

The results of the Group for the year are set out in the consolidated profit and loss account on page 35.

The directors have declared an interim dividend of HK1 cent per ordinary share, totally HK\$2 million, which was paid on 7th May 2003.

The directors recommended the payment of a final dividend of HK1 cent per share for the financial year ended 30th June 2003 to the shareholders whose names appear on the Register of Members at the close of business on Tuesday, 21st October 2003, which together with the interim dividend amounts to a total of about HK\$4 million.

The Register of Members of the Company will be closed from Friday, 17th October 2003 to Tuesday, 21st October 2003, both days inclusive, during which period, no transfer of shares will be registered. In order to qualify for the final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited at Rooms 1901-1905, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on Thursday, 16th October 2003. Dividend warrants will be dispatched to shareholders on or about Thursday, 30th October 2003.

Reserves

Movements in the reserves of the Group and of the Company during the year are set out in note 25 to the accounts.

As at 30th June 2003, the reserves of the Company available for distribution to shareholders amounted to HK\$75,788,000 (2002: HK\$65,255,000).

Donations

During the year the Group did not make any charitable and other donations.

Fixed Assets

Details of movements in fixed assets of the Group are set out in note 14 to the accounts.

Share Capital

Details of the movements in share capital of the Company are set out in note 23 to the accounts.

Five-Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 74.

Purchase, Sale or Redemption of Securities

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares during the year.

Share Option Scheme

In accordance with the Company's pre-listing share option scheme (the "Scheme"), which was adopted pursuant to a resolution passed on 7th January 2002, the directors may, at their absolute discretion, invite employees including directors, or bona fide consultants of the Company or any of its subsidiaries to take up options to subscribe for shares in the Company as incentive or rewards for their contributions to the Group.

At 30th June 2003, the number of shares in respect of which options had been granted under the Scheme was 20 million (2002: 20 million), representing 10% (2002: 10%) of the shares of the Company in issue at that date.

The overall limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and other schemes must not exceed 30% of the shares of the Company in issue from time to time. The total number of shares available for issue under options which may be granted under the Scheme and any other schemes must not in aggregate exceed 10% of the shares of the Company in issue at any point of time, unless shareholders' approval has been obtained. The number of shares in respect of which options may be granted to any individual in any 12-month period must not exceed 1% of the shares of the Company in issue at any point of time, unless shareholders' approval has been obtained.

Share Option Scheme *(Continued)*

Share options granted to connected persons or their associates must be approved by the independent non-executive directors. Share options granted to substantial shareholders or independent non-executive directors or their respective associates in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

Share options may be exercised in accordance with the terms of the Scheme at any time during the period commencing one year from the date of grant of the option and expiring on ten years from the date on which the Scheme was approved by written resolution of the shareholders of the Company.

The subscription price for the shares is determined by the directors, and shall not be less than the higher of the closing price of the Company's shares on the date of grant, and the average closing price of the shares for the five business days immediately preceding the date of grant.

Pursuant to the Scheme, share options were granted to certain employees and bona fide consultants of the Group on 22nd February 2002. The share options are exercisable at the subscription price of HK\$0.72 per share and exercisable at any time from 22nd February 2003 to 7th January 2012. At the date before the options were granted, 21st February 2002, the market value per share was HK\$0.65. Number of shares issuable under the Scheme outstanding as at 30th June 2003 is 18,280,000, including 17,920,000 shares to employees and directors under continuous employment contracts and 360,000 shares to bona fide consultants.

The aforesaid number of shares issuable under the Scheme include 6,550,000 shares granted to the directors of the Company.

During the year ended 30th June 2003, a total of 1,510,000 shares issuable under the Scheme had lapsed in accordance with the terms and conditions of the Scheme due to the resignation of employees, the subscription price of which was HK\$0.72.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess price per share over the nominal value of the shares is recorded by the Company in the share premium reserve. Options which are lapsed or cancelled prior to their exercise date are deleted from the register of outstanding options.

Share Option Scheme (Continued)

The directors are of the view that the theoretical value of the share options granted, which depends on a number of variables including the expected volatility of share price, are either difficult to ascertain or can only be ascertained subject to a number of speculative assumptions. Accordingly, the directors believed that any calculation of the value of the options will not be meaningful and may be misleading to the shareholders in these circumstances.

Details of the share options outstanding as at 30th June 2003 which have been granted under the Scheme are as follows:

	Number of share options				Held at 30th June 2003	Sub- scriptio n price HK\$	Grant date	Exercisable from	Exercisable until
	Held at 1st July 2002	Granted during the year	Exercised during the year	Lapsed during the year					
Directors:									
Yip Man Fan	2,000,000	—	—	—	2,000,000	0.72	22nd February 2002	22nd February 2003	7th January 2012
Kwok Kam Hoi	2,000,000	—	—	—	2,000,000	0.72	22nd February 2002	22nd February 2003	7th January 2012
Toru Tsunoyama	1,950,000	—	—	—	1,950,000	0.72	22nd February 2002	22nd February 2003	7th January 2012
Sin Wai Chiu, Joseph	600,000	—	—	—	600,000	0.72	22nd February 2002	22nd February 2003	7th January 2012
Continuous contract employees	12,880,000	—	—	1,510,000	11,370,000	0.72	22nd February 2002	22nd February 2003	7th January 2012
Bona fide consultants of the Group	360,000	—	—	—	360,000	0.72	22nd February 2002	22nd February 2003	7th January 2012

Directors

The directors of the Company during the year and up to the date of this report were:

Executive Directors

Mr. YIP Man Fan	(Chairman)
Mr. KWOK Kam Hoi	(Deputy Chairman and Chief Executive)
Mr. Toru TSUNOYAMA	
Mr. SIN Wai Chiu, Joseph	(Group Managing Director; resigned on 24th July 2003)

Independent Non-executive Directors

Mr. LAM, Andy Siu Wing, J.P.
Mr. MA Chiu Cheung, Andrew

In accordance with bye-law 87 of the Company, Mr. MA Chiu Cheung, Andrew retires by rotation and, being eligible, offer himself for re-election.

Directors' Emoluments

Particulars of the directors' emoluments disclosed pursuant to Section 161 of the Companies Ordinance and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") are set out in note 11 to the accounts.

Directors' Service Contracts

The Company has entered into service agreements with all the executive directors of the Company for the provision of management services to the Group, details of each of which are as follows:

1. Each of Mr. YIP Man Fan and Mr. KWOK Kam Hoi has entered into a service agreement with the Company for a term of two years commencing from 30th January 2002.
2. Mr. Toru TSUNOYAMA has entered into a service agreement with the Company for a term of one year commencing from 1st August 2002.
3. Mr. SIN Wai Chiu, Joseph has entered into a service agreement with the Company for a term of one year commencing from 1st April 2002.

Save as aforesaid, none of the directors has entered into or is proposing to enter into a service contract with the Company or its subsidiaries which is not determinable within one year without payment of compensation, other than statutory compensation.

Biography Of Directors and Senior Management

Biographical details of directors and senior management are set out on pages 29 to 33.

Directors' Interests In Contracts

Save as disclosed under "Connected Transactions" below, no contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Management Contracts

No contracts of significance concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30th June 2003, the interests and short positions of the directors or 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 Companies contained in the Listing Rules, were as follows:

	Number of 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
Toru Tsunoyama	22,500,000	—	—	—	22,500,000

Notes:

1. Shares are held by Ms. Tang Yuk Lan, the spouse of Mr. Yip Man Fan.
2. Shares are held by discretionary trusts of which Mr. Yip Man Fan and members of his family are beneficiaries.
3. Directors' or their associates' interests in shares listed above do not include share options as disclosed in "Share Option Scheme".

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures *(Continued)*

The interests of the directors in the share options of the Company are set out in "Share Option Scheme" on pages 17 to 19 and note 24 to the accounts.

Save as disclosed above, as at 30th June 2003, none of the directors 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 as defined in the SFO.

Directors' Rights to Acquire Shares or Debentures

Apart from as disclosed in the "Share Option Scheme" disclosures on pages 17 to 19 and in note 24 to the accounts, at no time during the year 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.

Other Persons' Interests and Short Positions in Shares, Underlying Shares and Debentures

At the date of this report, the register of every person, (other than directors whose interests or short positions have been disclosed above) who has interests or short positions in the shares and underlying shares 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%
Seiyu Shoji Co. Ltd.		16,000,000	8.00%

Other Persons' Interests and Short Positions in Shares, Underlying Shares and Debentures *(Continued)*

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.

Connected Transactions

During the year ended 30th June 2003, members of the Group entered into (or continued to be party to) the connected transactions (the "Transactions") set out below. The SEHK has, subject to certain conditions, granted a waiver to the Company from strict compliance with the requirements as stipulated in Chapter 14 of the Listing Rules in connection of these Transactions.

1. Pursuant to a share facilities and services agreement (the "Shared Facilities and Services Agreement") dated 7th January 2002 entered into between Tanrich (Hong Kong) Holdings Limited ("THKHL"), a company controlled by a combination of directors of the Company and Tanrich Futures Limited ("TFL"), TSCL, TAML and Tanrich Finance Limited ("TFIN") (collectively the "Licensees"), each a subsidiary of the Company, THKHL allows the Licensees to use certain of THKHL's administrative facilities and services including telephone, photocopying, advertising, usage of furniture and fittings, electricity at a fee based on the gross floor area occupied by the Group. For the year ended 30th June 2003, the aggregate fees incurred by the Group in respect of this arrangement amounted to approximately HK\$2,148,000 (2002: HK\$1,852,000). The amount has been included in "depreciation" as disclosed in note 28(c) to the accounts.

Connected Transactions (Continued)

2. TFL, TSCL, TAML and TFIN, each a subsidiary of the Company, have entered into licence agreements (the "Licence Agreements") with Tanrich Real Estate Group Limited ("TREGL"), a wholly-owned subsidiary of THKHL, for the period from 13th November 2001 to 4th May 2003. Pursuant to the Licence Agreements, the Group licences (i) a portion of 16th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong (the "Central Plaza Premises") with an aggregate gross floor area of about 15,400 square feet as its head office, at an aggregate monthly rental of approximately HK\$478,000; and (ii) Room 1917, 19th Floor, Seapower Tower, Concordia Plaza, 1 Science Museum Road, Tsimshatsui, Kowloon (the "Concordia Plaza Premises") with gross floor area of about 3,821 square feet as branch office, at a monthly rental of approximately HK\$111,000. For the year ended 30th June 2003, the aggregate licence fees incurred by the Group in respect of these arrangements amounted to approximately HK\$5,918,000 (2002: HK\$7,461,000). The amount has been included in "operating leases on land and buildings" as disclosed in note 28(a) to the accounts.

3. On 4th October 2002, Tanrich Financial (Management) Limited ("TFML"), a wholly-owned subsidiary of the Company, entered into a tenancy agreement with Union Light Investment Limited ("ULIL") for the letting of a villa at No. 18 Henderson Road, Jardine's Lookout, Hong Kong (the "Henderson Road Premises") for a term of 21 months from 1st October 2002. ULIL is beneficially owned as to 30% by TREGL and 70% by Clear Goal International Limited, which, in turn, is beneficially owned as to 95% by Mr. Yip Man Fan (an executive director and chairman of the Company) and 5% by Ms. Tang Yuk Lan (the spouse of Mr. Yip). Under the tenancy agreement, ULIL agreed to let the Henderson Road Premises as landlord, to TFML as tenant, for a term of 21 months commencing 1st October 2002 at a fixed rent of HK\$430,000 per month. For the year ended 30th June 2003, the aggregate rental incurred by the Group in respect of this arrangement amounted to approximately HK\$3,870,000. The amount has been included in "rental expenses on staff quarter" as disclosed in note 28(b) to the accounts.

4. On 4th October 2002, the Company entered into a supplemental agreement (the "Supplemental Agreement") with Mr. Yip Man Fan, an executive director of the Company, to amend Mr. Yip's service agreement with the Company. Particulars of Mr. Yip's service agreement were disclosed in the prospectus of the Company dated, 21st January 2002 (the "Prospectus").

The Supplemental Agreement amended Mr. Yip's terms of employment to provide that the Company or any of its subsidiaries may, at its discretion, provide Mr. Yip with accommodation at the Henderson Road Premises during his term of appointment under Mr. Yip's service agreement. Previously, Mr. Yip had not been provided with accommodation under the service agreement. All other terms of Mr. Yip's Service Agreement remain unchanged.

Connected Transactions *(Continued)*

5. On 4th October 2002, TREGL entered into supplemental agreements (the "Tanrich Securities Supplemental Agreement, "Tanrich Asset Management Supplemental Agreement" and "Tanrich Futures Supplemental Agreement" respectively) with each of TSCL, TAML and TFL to amend licence agreements dated 13th November 2001 entered into by each of them, details of these agreements were disclosed in the Prospectus. TREGL is a wholly-owned subsidiary of THKHL, which is beneficially owned as to 80% by Mr. Yip Man Fan, 15% by Toru Tsunoyama (an executive director of the Company) and 5% by Ms. Tang Yuk Lan. Each of TSCL, TAML and TFL is an indirect wholly-owned subsidiary of the Company. All the licences under the licence agreements have since expired.

The Tanrich Futures Supplemental Agreement provides for an increase in the area licensed for use at the Central Plaza Premises under the original licence agreement relating to the premises, from 9,590 square feet to 13,087 square feet, and for the licence fee payable thereunder to be adjusted from HK\$297,705 per month to HK\$409,000 per month, with effect from 1st October 2002.

The Tanrich Securities Supplemental Agreement provides for a decrease in the area licensed for use at the Central Plaza Premises under the original licence agreement relating to the premises from 4,332 square feet to 3,470 square feet, and for the licence fee payable thereunder to be adjusted from HK\$134,485 per month to HK\$108,000 per month, with effect from 1st October 2002.

The Tanrich Asset Management Supplemental Agreement provides for an increase in the area licensed for use at the Central Plaza Premises under the original licence agreement relating to the premises, from 1,381 square feet to 1,920 square feet, and for the licence fee payable thereunder to be adjusted from HK\$42,873 per month to HK\$60,000 per month, with effect from 1st October 2002.

In each case, all other terms of the original licence agreement remain unchanged (including the original expiry date of 4th May 2003). It was the intention of the parties that the monthly licence fee per square foot before and after such adjustment remain unchanged, at approximately HK\$31, and the adjusted licence fee was calculated accordingly. The Tanrich Securities Supplemental Agreement does not provide for any compensation to be payable to TREGL upon such decrease and adjustment.

6. On 4th October 2002 pursuant to a termination letter (the "Termination Letter"), TREGL and TFL agreed to terminate with effect from 1st October 2002 the licence agreement dated 13th November 2001 entered into by them in respect of the Concordia Plaza Premises. The premises had been used as the branch office premises of TFL. The Termination Letter does not provide for any compensation to be payable to TREGL upon such termination.

Details of the licence agreement dated 13th November 2001 were disclosed in the Prospectus.

Connected Transactions *(Continued)*

The independent non-executive directors of the Company have reviewed the above transactions and confirmed that:

- I. The Transactions are:
 - (a) entered into by the Group in the ordinary and usual course of its business; and
 - (b) conducted either (A) on normal commercial terms (which expression will be applied by reference to transactions of a similar nature and to be made by similar entities) or (B) (where there is no available comparison) on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
 - (c) entered into either (A) in accordance with the terms of the agreements governing such transactions or (B) where there are no such agreements on terms no less favourable than those available to or from independent third parties.
2. The aggregate value of each of the Transactions will not exceed the respective cap amounts in any financial year as below:
 - (i) the aggregate of licence fee under the Licence Agreements shall not exceed HK\$7 million for each financial year; and
 - (ii) the aggregate of share facilities and services payable under the Shared Facilities and Services Agreement shall not exceed 5% of the audited consolidated turnover of the Group in that financial year; and
 - (iii) the aggregate of commission income receivable under the clients agreement as described on page 59 of the Prospectus shall not exceed 5% of the audited consolidated turnover of the Group in that financial year.

Disclosure under Practice Notice 19

As at 30th June 2003, the Group had amounts receivable from one of its designated brokers in Japan amounted to HK\$37.1 million (30th June 2002: HK\$68.2 million), representing 34.9% (30th June 2002: 61.9%) 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 Japanese commodity futures on the TGE and TOCOM on behalf of clients. The amount is unsecured, non-interest bearing and repayable on demand subject to the margin deposit requirements.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company's bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Major Customers

Income from the Group's five largest customers, in aggregate contributed to less than 30% of the Group's total income during the year.

The Group is a provider of financial services. In the opinion of the directors, it is therefore of no value to disclose details of the Group's suppliers.

Compliance with The Code of Best Practice

In the opinion of the directors, the Company complied with the Code of Best Practice, as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by the annual report, except that the independent non-executive directors of the Company have no fixed terms of office, but will retire from office on a rotation basis in accordance with the Company's bye-laws.

Audit Committee

The Audit Committee provides an important link between the directors and the Company's auditors in matters coming within the scope of the group audit. It also reviews the effectiveness of both of the external and internal audit arrangements and of internal controls and risk evaluation. The Committee comprises two independent non-executive directors, namely Mr. Lam, Andy Siu Wing and Mr. Ma Chiu Cheung, Andrew. Two meetings were held during the current financial year.

Internal Audit

The Group's Internal Audit Department is responsible for carrying out a systematic review of all business operations over a period that is determined after an assessment of the risks involved. The audit plan is endorsed by the Audit Committee annually. The Group Internal Auditor has unrestricted access to all parts of the business, and direct access to any level of management including the chairman, or the chairman of the Audit Committee as he considers necessary.

Retirement Benefit Schemes

Particulars of the retirement benefit schemes of the Group are set out in note 12 to the accounts.

Auditors

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

YIP MAN FAN

Chairman

Hong Kong, 18th September 2003

Executive Directors

Mr. Yip Man Fan, aged 49, is the chairman of the Company and the founder of the Group. Mr. Yip has been in the securities and futures broking business for over 21 years. Mr. Yip is also a director and responsible officer of TFL. He is responsible for the business development, corporate strategies and policies of the Group. Mr. Yip was the past President of Lions Club of the Peak, Hong Kong. He has also received the Melvin Jones Fellow award for dedicated Humanitarian Services of Lions Clubs International Foundation.

Mr. Kwok Kam Hoi, aged 51, is the deputy chairman of the Company and the chief executive of the Group. Mr. Kwok joined the Group in October 1995. He is responsible for the business development, corporate strategies, policies and overall management of the Group. He is a member of the risk control committee and credit control committee. Mr. Kwok has actively contributed to the Group's restructuring and business growth. Before joining the Group, he was a vice president of J.P. Morgan & Co. Incorporated where he has worked for 16 years. Mr. Kwok is a graduate of the Chinese University of Hong Kong in business management. He is also a member of the Hong Kong Securities Institute and a member of the financial services committee of Hong Kong Coalition of Service Industries, which is the Service Policy Think-Tank of the Hong Kong General Chamber of Commerce.

Mr. Toru Tsunoyama, aged 48, is an executive director of the Company. He joined the Group in May 1991 and is an advisor on the Japanese commodity futures activities of the Group. He is also a member of the risk control committee and the credit control committee. He has over 24 years of experience in the commodity futures field. Mr. Tsunoyama is a law graduate of Kyoto Sangyo University, Japan.

Mr. Sin Wai Chiu, Joseph, aged 48, was the managing director of the Company and the Group. Mr. Sin joined the Group in September 2001 and resigned on 24th July 2003. He was responsible for the business development, corporate strategies, company policies and overall management of the Group. Prior to joining the Group, he was the president and chief executive of AXA-Minmentals Assurance Co. Ltd., and has over 28 years of experience in the field of insurance, investment, finance and industrial management. Mr. Sin is also a member of the Guangzhou Committee of the Chinese People's Political Consultative Conference, an advisor of the Guangdong General Chamber of Commerce, an honorary vice-chairman of the Chinese Financial Education Development Foundation, Beijing and an honorary vice president of the Hong Kong Accounting Professionals General Union. He is also a visiting professor of the Central University of Finance and Economics, Beijing and the Wuhan University; and a honorary professor of the Guangzhou College of Finance, China. Mr. Sin holds a bachelor's degree in commerce from Far East College, Taiwan and is a qualified accountant, a chartered secretary and a registered financial planner.

Non-executive Directors

Mr. Lam, Andy Siu Wing, J.P., aged 52, is a qualified accountant and holds a master's degree in business administration from Oklahoma City University, USA. He has over 18 years of experience in finance, marketing, corporate administration and strategic planning. Mr. Lam has been appointed by the Hong Kong Government as a Justice of the Peace and sits on a number of boards and committees. He had served as a member of the Administrative Appeals Board, the Urban Services Appeals Board, Board of Review (Inland Revenue Ordinance), and an adjudicator of Immigration Tribunal. Currently he is still a member of the Action Committee Against Narcotics, an adjudicator of the Registration of Persons Tribunal, and an adjudicator of the Obscene Articles Tribunal. Mr. Lam had also sat on the board of several Hong Kong listed companies.

Mr. Ma Chiu Cheung, Andrew, age 61, is a director of Andrew Ma DFK (CPA) Limited. He has about 31 years of experience in accounting and finance. He received his bachelor degree majoring in economics from London School of Economics and Political Science in England. Mr. Ma is a fellow member of the Institute of Chartered Accountants in England & Wales and a fellow member of the Hong Kong Society of Accountants. He was the past president of Rotary Club of Hong Kong Island West. Currently he is the President of The Hong Kong Federation of Youth Groups, vice president of Chiu Yang Residents Association Limited, vice-president of Hong Kong Club Chow Chamber of Commerce Limited. Mr. Ma is also the registered manager of Chiu Yan Primary School of Hong Kong, Chiu Chow Association Secondary School and Chiu Sheung School, Hong Kong.

Senior management

Mr. Pun Tit Shan, aged 42, is a director and responsible officer of TSCL and TFL. He is also a member of credit control committee. Mr. Pun has over 19 years experience in the financial field. Prior to joining the Group in April 2002, he was the dealing director of BOCI Commodities and Futures Ltd. and the vice president of BOCI Securities Ltd. Mr. Pun has been a director of the Board of Hong Kong Futures Exchange Limited and Hong Kong Stock Exchange Options Clearing House Limited for 4 years. Currently, Mr. Pun is a panel member of Derivatives Market Consultative Panel of Hong Kong Exchange and Clearing Ltd and a committee member of Professional Education Committee of Hong Kong Securities Institute.

Mr. Ting Sai Man, Simon, aged 44, is a director and responsible officer of TFL. Mr. Ting has been in futures business for over 13 years. Prior to joining the Group in June 2001, he worked for HSBC CM & M Futures (Singapore) Pte Ltd., Chase Manhattan Bank, Fimat Harlow Butler Ltd., Bank of America Futures Inc. and New York Mercantile Exchange Hong Kong office holding the positions from assistant manager to vice president.

Directors and Senior Management

Senior management *(Continued)*

Mr. Chan Lee Yeung, aged 53, is a director and responsible officer of TSCL and TAML. Mr. Chan has been in the securities business for over 31 years. He joined the Group in July 1991.

Ms. Lau Yim Ling, Elaine, aged 41, is a senior vice president of the sales division of TFL. She is also a director and responsible officer of TFL. Ms. Lau joined the Group in November 1990 and has over 16 years experience in futures business. She holds a master's degree in business administration from Newport University, USA.

Mr. Lee Hung Kwong, Simon, aged 38, is a senior vice president of the sales division of TFL. He is also a director and responsible officer of TFL. Mr. Lee joined the Group in November 1990 and has about 17 years experience in futures business. He holds a diploma in business management jointly awarded by Hong Kong Management Association and Lingnan University, Hong Kong.

Mr. Cheung Nai Shun, Robert, aged 44, is a senior vice president of the sales division of TFL. Mr. Cheung joined the Group in November 1990 and has been in the futures business for over 14 years.

Ms. Li Wai Kuen, aged 43, is a director and responsible officer of TCL. Before joining the Group in October 2002, Ms. Li worked for the Listing Division of the Stock Exchange of Hong Kong Limited, CEF Capital Limited, Yuanta Securities (Hong Kong) Company Limited and CSC Asia Limited. Ms. Li has over 12 years experience in the field of corporate finance and holds a Master degree in Business Administration from York University, Canada.

Mr. Sit Kar Kin, Kenneth, aged 37, is a director and responsible officer of TCL. Mr. Sit joined the Group in March 2003 and has over 10 years experience in corporate finance, with emphasis in PRC deals and projects. Prior to joining the Group, Mr. Sit had worked for a number of investment banks including Kingsway Capital Limited, BOCI Asia Limited, China Everbright Capital Limited and Nikko Securities Co., (Asia) Limited. Mr. Sit holds an MBA degree in finance from Bradford University, UK and a bachelor degree from Bath University, UK.

Senior management *(Continued)*

Mr. Io Cheok Kei, Rudy, aged 43, is the financial controller of the Group and secretary of the Company. He is also a member of the risk control committee and credit control committee. Mr. Io has 19 years experience in accounting, management and corporate advisory. Mr. Io joined the Group in January 2003. Before joining he was director of a corporate advisory company. Prior to that he was the financial controller and chief financial officer of China Everbright International Limited and New Epoch Holdings Limited, which is an associate of Henry Fok Ying Tung Group of Companies. Before that he was the financial controller of a listed company in Toronto, Canada. Mr. Io is a member of the Canadian Institute of Chartered Accountants and a fellow member of the Hong Kong Society of Accountants. He holds a master business degree in information technologies from Curtin University of Australia and an honours administrative studies degree from York University, Canada. Mr. Io is also a member of the China Committee in the Hong Kong General Chamber of Commerce and the Zone II Chairperson of the Lions Clubs International District 303 Hong Kong, Macau and China.

Mr. Yip Yu Kong, Daniel, aged 34, is the senior manager of the Group's internal audit division. He has over 10 years of experience in accounting and finance. Before joining the Group in October 2000, Mr. Yip worked for KPMG and a listed company in Hong Kong. He is an accounting graduate of University of Newcastle, Australia and is a member CPA Australia and an associate member of the Hong Kong Society of Accountants.

Mr. Wan Chuck Pui, Mark, aged 36, is the senior manager of the Group's research division. Mr. Wan joined the Group in April 1992 and has over 11 years of financial services research experience. He is a graduate of Keele University, England in economics.

Ms. Wong Lai Ping, aged 43, is the senior manager of the Group's human resources and corporate services division. She joined the Group in June 1990 and has over 21 years' experience in the area of administration and human resources. Ms. Wong holds a diploma in business management jointly awarded by Hong Kong Management Association and Lingnan University, Hong Kong.

Ms. Chan Lai Ling, aged 40, is the senior manager of the TFL's settlement division. Ms. Chan joined the Group in November 1990 and has over 15 years' experience in futures settlement.

Mr. Chu Siu Fai, Alan, aged 37, is the manager of the Group's information technology division. Mr. Chu has been in the IT field for over 13 years. Prior to the joining the Group in July 2001, he worked for Hang Seng Bank Ltd., ABN-AMRO Bank and Orix Asia Ltd. holding the positions from senior analyst programmer to assistant manager. Mr. Chu holds a bachelor degree in computing science from University of Ulster, Northern Ireland and a bachelor degree in economics from University of London, England and a master degree in business administration from Open University of Hong Kong.

Senior management *(Continued)*

Mr. Kwan Wai Kit, Alan, aged 31, is the manager of the Group's legal and compliance division. He is also a member of the risk control committee. Before joining the Group in September 2000, Mr. Kwan worked for PricewaterhouseCoopers and ABN AMRO Asia Limited, Hong Kong for 5 years. He holds a bachelor degree in accounting from City University of Hong Kong and is a Certified Public Accountant in Hong Kong and a member of the Association of Chartered Certified Accountants.



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AUDITORS' REPORT TO THE SHAREHOLDERS OF TANRICH FINANCIAL HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

We have audited the accounts on pages 35 to 73 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of the accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, in accordance with section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 30th June 2003 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 18th September 2003

Consolidated Profit and Loss Account

For the year ended 30th June 2003

		2003	As restated
	Note	HK\$'000	2002 HK\$'000
Turnover	3	126,689	161,295
Other revenues	3	2,410	2,528
		129,099	163,823
Staff costs	4	68,214	80,567
Operating leases on land and buildings		10,628	11,559
Brokerage and agency commission		15,304	11,599
Provision for bad and doubtful debts		544	—
Other operating expenses	5	21,516	21,201
		116,206	124,926
Operating profit		12,893	38,897
Finance costs	6	(398)	(690)
Profit before taxation		12,495	38,207
Taxation	7	(2,271)	(7,888)
Profit attributable to shareholders	8	10,224	30,319
Dividends	9	4,000	25,000
Earnings per share — Basic (HK cents)	10	5.1	17.7

Consolidated Balance Sheet

As at 30th June 2003

36

TANRICH FINANCIAL HOLDINGS LIMITED • ANNUAL REPORT 2003

	Note	2003 HK\$'000	As restated 2002 HK\$'000
Non-current assets			
Intangible assets	13, 2(c)	590	—
Fixed assets	14	2,637	4,263
Other assets	15	2,100	1,850
Non-trading investments	16	23,176	16,782
Loans and advances	18	346	280
Deferred tax assets	26	1,162	3
		30,011	23,178
Current assets			
Loans and advances	18	341	384
Accounts receivable	19	82,010	104,844
Deposits, prepayments and other receivables	20	4,575	17,699
Cash and bank balances	21	62,800	74,737
		149,726	197,664
Current liabilities			
Accounts payable	22	52,124	83,285
Other payables and accrued charges		7,801	17,213
Taxation payable		13,388	9,791
Bank overdrafts		—	222
		73,313	110,511
Net current assets		76,413	87,153
Total assets less current liabilities		106,424	110,331
Financed by:			
Share capital	23	20,000	20,000
Reserves	25	86,421	90,153
Shareholders' fund		106,421	110,153
Non-current liabilities			
Deferred tax liabilities	26	3	178
		106,424	110,331

Mr. Kwok Kam Hoi
Director

Mr. Toru Tsunoyama
Director

Balance Sheet

As at 30th June 2003

	Note	2003 HK\$'000	2002 HK\$'000
Non-current assets			
Investments in subsidiaries	17	103,237	71,680
Non-trading investments	16	8,549	—
		111,786	71,680
Current assets			
Deposits, prepayments and other receivables	20	—	29
Cash and bank balances		1,139	30,687
		1,139	30,716
Current liabilities			
Other payables and accrued charges		—	4
		—	4
Net current assets		1,139	30,712
Total assets less current liabilities		112,925	102,392
Financed by:			
Share capital	23	20,000	20,000
Reserves	25	92,925	82,392
		112,925	102,392

Mr. Kwok Kam Hoi
Director

Mr. Toru Tsunoyama
Director

Consolidated Statement of Changes in Equity

For the Year ended 30th June 2003

	Note	2003 HK\$'000	As restated 2002 HK\$'000
Total equity as at 1st July		110,328	59,412
Effect of changes in accounting policies		(175)	(169)
Total equity as at 1st July, as restated		110,153	59,243
Change in fair value of non-trading investments	25	(2,956)	(1,372)
		107,197	57,871
Capital reserve arising from reorganisation	25	—	1,004
Public issue on 30th January 2002	23	—	5,000
Premium arising from the public offer and placing of shares	25	—	45,000
Share issue expenses	25	—	(13,041)
Profit for the year	25	10,224	30,319
Dividends	9	(11,000)	(16,000)
Total equity as at 30th June		106,421	110,153

Consolidated Cash Flow Statement

For the Year ended 30th June 2003

	2003 HK\$'000	2002 HK\$'000
Cash flow from operating activities		
Profit before taxation	12,495	38,207
Adjustments for:		
Dividend income	(900)	(431)
Interest income	(3,462)	(3,479)
Interest expenses	398	690
Amortisation of intangible assets	10	—
Provision for bad and doubtful debts	544	(33)
Depreciation of fixed assets	1,543	1,585
Loss on disposal of fixed assets	691	—
Operating profit before working capital changes	11,319	36,539
Increase in intangible assets	(600)	—
Increase in other assets	(250)	—
(Increase)/decrease in loans and advances	(23)	729
Decrease in accounts receivable	22,290	31,552
Decrease/(increase) in deposits, prepayments and other receivables	13,124	(3,343)
Decrease in amounts due from a related company	—	21,879
Decrease in accounts payable	(31,161)	(19,847)
(Decrease)/increase in other payables and accrued charges	(9,412)	12,273
Decrease in amounts due to a related company	—	(2,090)
Cash generated from operations	5,287	77,692
Hong Kong profits tax paid	(8)	(4,063)
Interests received	3,462	3,796
Net cash generated from operating activities	8,741	77,425
Investing activities		
Purchase of fixed assets	(609)	(3,467)
Sales of fixed assets	1	—
Acquisitions of non-trading investments	(9,350)	—
Dividends received	900	431
Net cash used in investing activities	(9,058)	(3,036)

Consolidated Cash Flow Statement *(Continued)*

For the Year ended 30th June 2003

	2003 HK\$'000	2002 HK\$'000
Financing activities		
Increase in share capital of subsidiaries by the then shareholder prior to reorganization	—	1,004
Proceeds from issue of shares	—	50,000
Share issue expenses	—	(13,041)
Dividends paid	(11,000)	(16,000)
Interests paid	(398)	(731)
Net cash (used in)/from financing activities	(11,398)	21,232
(Decrease)/increase in cash and cash equivalents	(11,715)	95,621
Cash and cash equivalents at 1st July	74,515	(21,106)
Cash and cash equivalents at 30th June	62,800	74,515
Analysis of balances of cash and cash equivalents		
Cash and bank balance	62,800	74,737
Bank overdrafts	—	(222)
	62,800	74,515

1. Basis of Preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, non-trading investments and derivative financial instruments are stated at fair value.

2. Principal Accounting Policies

In the current year, the Group adopted the following Statement of Standard Accounting Practice ("SSAP's) issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 15 (revised)	:	Cash flow statements
SSAP 34 (revised)	:	Employee benefits

The Group has also adopted SSAP 12 (revised) Income Taxes, which is effective for accounting periods commencing on or after 1st January 2003, in advance of its effective date.

The accounting policies set out below have taken into accounts the new SSAPs.

(a) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 30th June.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision, if necessary, for any permanent diminution in value. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(b) Subsidiaries

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

2. Principal Accounting Policies *(Continued)***(c) Intangible assets**

The subsidiaries of the Company hold two trading rights on the SEHK and two trading rights on the Hong Kong Futures Exchange (the "HKFE"). The trading rights are recognised as intangible assets on the balance sheet. One trading right on the SEHK was purchased during the year and it is recorded at the purchase cost and amortised using the straight-line method over its estimated useful life of ten years. Other three trading rights are recorded at zero book value. Where an indication of impairment exists, the carrying amount of the intangible asset is assessed and written down to its recoverable amount.

(d) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation of leasehold improvements is calculated to write off their cost less accumulated impairment losses over the unexpired periods of the leases or their expected useful lives to the Group whichever is shorter.

Other tangible fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight line basis. The principal annual rates are as follow:

Furniture and fixtures	20%
Office equipment	20%
Computer equipment	33 ¹ / ₃ %

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that the fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(e) Other assets

Other assets held in a long term basis are stated at cost less accumulated impairment losses deemed necessary by the directors.

2. Principal Accounting Policies *(Continued)*

(f) **Non-trading investments**

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

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

(g) **Provision for bad and doubtful debts**

Provision is made against accounts receivable, loans and advances to the extent they are considered to be doubtful. Accounts receivable, loans and advances in the balance sheet are stated net of such provision.

(h) **Trust accounts**

Trust accounts maintained by the subsidiaries of the Company to hold clients' monies are treated as the off-balance sheet items and disclosed in a note to the accounts.

(i) **Cash and cash equivalents**

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, balances with banks with original maturities less than three months and bank overdrafts.

(j) **Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

(k) **Revenue recognition**

All commission income related to securities and futures trading are recorded in the accounts based on trade dates. Accordingly, only those transactions whose trade dates fall within the accounting year have been taken into account.

Commission income from unit trusts sales is recognised on an accrual basis.

Commission income from insurance linked products is recognised when services are rendered.

Corporate finance advisory fees are recognised on the basis of the stage of completion of each individual project.

2. Principal Accounting Policies *(Continued)*

(k) Revenue recognition *(Continued)*

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.

Placement fees, consultancy fees, underwriting and sub-underwriting commissions are recognised when services are rendered.

(l) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, accounts receivable and operating cash. Segment liabilities comprise accounts payable and operating liabilities. Capital expenditure comprises additions to intangible assets and fixed assets.

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

(m) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. An accrual is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity or paternity leave are recognised when the absences occur.

(ii) Profit sharing and bonus plans

The expected cost of profit sharing and bonus payments are recognised as a liability when the Company has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for profit sharing and bonus plans are expected to be settled within twelve months and are measured at the amounts expected to be paid when they are settled.

2. Principal Accounting Policies *(Continued)*

(m) Employee benefits *(Continued)*

(iii) Retirement benefits schemes

The Group offers a defined contribution retirement scheme and a mandatory provident fund scheme, the assets of which are generally held in separate trustee-administered funds. These defined contributions plans are generally funded by payments from employees and by the Group.

The Group's contributions to the defined contribution retirement scheme and the mandatory provident fund scheme are expensed as incurred.

(iv) Share options scheme

Share options of the Company are granted to certain directors, employees and bona fide consultants of the Group under the share option scheme. Equity compensation benefits resulting from the issue of share options to the Group's directors, employees and bona fide consultants at less than the fair value at which those instruments would be issued to a third party are not recognised in the Group's account.

(n) Borrowing costs

All borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(o) Income tax

Income tax for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arise from depreciation on fixed assets. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences or the unused tax losses can be utilised.

2. Principal Accounting Policies *(Continued)***(o) Income tax** *(Continued)*

In prior year, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the new SSAPI2 (revised) represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in note 25 to the accounts, opening retained earnings at 1st July 2002 and 2001 have been reduced by HK\$175,000 and HK\$169,000 respectively which represent the unprovided net deferred tax liabilities. This change has resulted in an increase in deferred tax assets and deferred tax liabilities at 30th June 2003 by HK\$1,162,000 and HK\$3,000 respectively. The profit for the year ended 30th June 2003 has been increased by HK\$1,334,000.

The carrying amount of a deferred asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

(p) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. All exchange differences arising are dealt with in the profit and loss account.

(q) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight line basis over the lease periods.

(r) Off-balance sheet financial instruments

Off-balance sheet financial instruments include listed equity index futures contracts, listed currency futures contracts and foreign exchange deferred trading undertaken by the Group in the equity and foreign exchange markets. These instruments are recorded on the Group's balance sheet on a trade date basis. The accounting for these instruments is dependent upon whether the transactions are undertaken for dealing purposes or to hedge risk.

2. Principal Accounting Policies *(Continued)*

(r) Off-balance sheet financial instruments *(Continued)*

Listed equity index futures contracts and listed currency futures contracts undertaken for trading purposes are marked to market. Fair values are obtained periodically from quoted market prices. The gains and losses arising from trading in listed equity index futures contracts and listed currency futures contracts are recognised in the profit and loss account as profit/ (loss) on proprietary trading in futures contracts.

Foreign exchange deferred trading designated as hedges are valued on an equivalent basis to the assets, liabilities or net positions which they are hedging. Any profit or loss is recognised in the same period as that arising from the related assets, liabilities or positions.

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

- (i) the transaction must be reasonably expected to match or eliminate a significant portion of the risk inherent in the position being hedged; and
- (ii) there is adequate documentary evidence of the intent to hedge at the outset of the transaction.

(s) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

3. Turnover, Revenue and Segment Information

The Group is principally engaged in broking index, commodity and currency futures contracts and securities for its clients mainly on the following exchanges:

- TGE;
- TOCOM;
- the HKFE;
- the SEHK; and
- other overseas exchanges (such as Chicago Mercantile Exchange and New York Board of Trade etc).

The Group transacted commodity and currency futures contracts through external exchange participants of TGE, TOCOM or other overseas exchanges on behalf of clients.

3. Turnover, Revenue and Segment Information *(Continued)*

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

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

	2003 HK\$'000	2002 HK\$'000
TURNOVER		
Brokerage commission:		
— commodity futures contracts on TGE and TOCOM	88,547	142,025
— commodity and currency futures contracts on other overseas exchanges	29,335	2,756
— index futures contracts on the HKFE	540	2,032
— securities dealing	3,587	3,917
Advisory and asset management fees		
— corporate finance and advisory	145	844
— commission on sale of unit trust and insurance-linked products	4,878	1,952
Interest income:		
— securities margin financing	2,126	1,502
— loans and advances	62	99
— deposits with clearing houses and brokers	1	2,332
— bank deposits and others	1,273	1,147
Proprietary trading in futures contracts		
— on the HKFE	102	2,689
— on overseas exchanges	(3,907)	—
	126,689	161,295
OTHER REVENUES		
Dividend income	900	431
Exchange gains	386	1,441
Management fee income	960	400
Other income	164	256
	2,410	2,528
Total turnover and revenues	129,099	163,823

3. Turnover, Revenue and Segment Information *(Continued)***Business segments**

For management purposes, the Group is currently divided into seven operating divisions, namely, futures broking, securities broking, securities margin financing, corporate finance, asset management services, money lending and proprietary trading. These divisions are the basis on which the Group reports its primary segmental information. The principal activities of these divisions are as follows:

Futures broking	—	provision of agency and broking services in trading of Japanese commodity futures contracts, US commodity and currency futures contracts and Hong Kong index futures contracts
Securities broking	—	provision of securities broking services
Securities margin financing	—	provision of securities margin financing services
Corporate finance	—	provision of corporate finance services
Asset management services	—	distribution of unit trusts, mutual funds, insurance-linked products and provision of personal financial consulting and planning services
Money lending	—	provision of personal financing services
Proprietary trading	—	proprietary trading in index futures contracts on the HKFE and currency futures contracts on overseas exchanges

3. Turnover, Revenue and Segment Information *(Continued)*

Business segments *(Continued)*

Segment information about the business is presented below:

	2003								Consolidated HK\$'000
	Futures broking HK\$'000	Securities broking HK\$'000	Securities margin financing HK\$'000	Corporate finance HK\$'000	Asset management services HK\$'000	Money lending HK\$'000	Proprietary trading HK\$'000	Other operations HK\$'000	
TURNOVER	119,299	3,708	2,198	212	4,880	63	(3,805)	134	126,689
RESULT	25,230	(2,266)	(1,158)	(2,785)	(2,195)	(60)	(4,207)	334	12,893
Finance cost									(398)
Taxation									(2,271)
Profit attributable to shareholders									10,224
ASSETS									
Segment assets	106,645	18,210	25,622	8,044	5,139	1,958	2,947	11,172	179,737
LIABILITIES									
Segment liabilities	65,446	4,760	613	74	2,388	35	—	—	73,316
Capital expenditure	89	895	174	5	46	—	—	—	1,209
Depreciation	999	303	180	7	54	—	—	—	1,543
Amortisation	—	10	—	—	—	—	—	—	10

3. Turnover, Revenue and Segment Information (Continued)**Business segments** (Continued)

	2002								Consolidated HK\$'000
	Futures broking HK\$'000	Securities broking HK\$'000	Securities margin financing HK\$'000	Corporate finance HK\$'000	Asset management services HK\$'000	Money lending HK\$'000	Proprietary trading HK\$'000	Other operations HK\$'000	
TURNOVER	149,578	4,135	1,586	844	1,957	304	2,689	202	161,295
RESULT	48,014	(5,283)	(1,945)	(2,287)	(2,641)	181	2,662	196	38,897
Finance cost									(690)
Taxation									(7,888)
Profit attributable to shareholders									30,319
ASSETS									
Segment assets	148,038	16,561	21,366	17	1,114	1,023	2,007	30,716	220,842
LIABILITIES									
Segment liabilities	104,919	3,331	2,022	1	371	40	—	5	110,689
Capital expenditure	3,281	103	39	8	36	—	—	—	3,467
Depreciation	637	646	248	11	43	—	—	—	1,585

Geographical segments

No geographical reporting is provided as less than 10% of the consolidated turnover and consolidated trading results of the Group are derived from markets outside Hong Kong and all assets of the Group are originated from business decisions and operations based in Hong Kong.

4. Staff Costs

	2003 HK\$'000	2002 HK\$'000
Salaries, commissions and allowances	62,783	74,132
Contributions to retirement benefits schemes (Note 12)	1,257	1,360
Rental expenses on staff quarter (Note 28(b))	3,870	—
Staff costs recharged by a related company (Note 28(f))	—	4,983
Others	304	92
Staff costs include directors' emoluments (Note 11)	68,214	80,567

5. Other Operating Expenses

	2003 HK\$'000	2002 HK\$'000
Advertising and market development	1,802	2,342
Amortisation of intangible assets	10	—
Auditors' remuneration	1,017	990
Building management fees	1,456	1,155
Depreciation of owned fixed assets	1,543	1,585
Depreciation charges paid to a related company (Note 28(c))	2,148	1,852
Legal and professional fees	1,412	734
Loss on disposal of fixed assets	691	—
Mis-trade expenses	129	49
Recruitment	902	1,097
Repairs and maintenance	817	745
Telecommunication costs	2,808	3,227
Trading fees	134	97
Other administrative and miscellaneous expenses	6,647	7,328
	21,516	21,201

6. Finance Costs

	2003 HK\$'000	2002 HK\$'000
Interest on bank overdrafts wholly repayable within five years	398	690

7. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit for the year.

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

	2003 HK\$'000	2002 HK\$'000
Current taxation:		
Hong Kong profits tax	3,605	7,882
Deferred taxation relating to the origination and reversal of temporary differences (Note 26)	(1,350)	6
Deferred taxation resulting from an increase in tax rate (Note 26)	16	—
Taxation charge	2,271	7,888

7. Taxation (Continued)

	2003 HK\$'000	2002 HK\$'000
Profit before taxation	12,495	38,207
Calculated at a taxation rate of 17.5% (2002: 16%)	2,187	6,113
Income not subject to taxation	(352)	(79)
Expenses not deductible for taxation purposes	5	—
Tax losses unrecognised	1,683	1,854
Unused tax losses recognised	(1,268)	—
Increase in opening net deferred tax liabilities resulting from an increase in tax rate	16	—
Taxation charge	2,271	7,888

8. Profit Attributable to Shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$22,334,000 (2002: HK\$6,196,000).

9. Dividends

	2003 HK\$'000	2002 HK\$'000
Interim declared and paid: HK1 cent per ordinary share (2002: HK3 cents)	2,000	6,000
Dividends paid by a subsidiary of the Company to the then shareholder prior to reorganisation	—	10,000
Final proposed: HK1 cent per ordinary share (2002: HK4.5cents) (Note a)	2,000	9,000
	4,000	25,000

Note (a): A final dividend of HK1 cent (2002: HK4.5 cents) per ordinary share has been proposed by the directors and is subject to the approval by the shareholders at the forthcoming annual general meeting.

This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 30th June 2004.

10. Earnings Per Share

The calculation of the basic earnings per share is based on the Group's profit attributable to shareholders of approximately HK\$10,224,000 (2002: HK\$30,319,000) divided by the weighted average number of 200,000,000 shares (2002: 170,821,918 shares) in issue during the year.

In determining the weighted average number of shares in issue used to calculate the basic earnings per share for the year ended 30th June 2002, the 1,779,900 shares issued before the capitalisation issue and the capitalisation issue of 148,220,100 shares as described in the Prospectus were deemed to have been in issue throughout the accounting periods presented.

Diluted earnings per share for the years ended 30th June 2003 and 2002 were not disclosed as there were no dilutive potential ordinary shares.

11. Directors' and Employees' Emoluments**Directors' emoluments of the Company**

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	2003 HK\$'000	2002 HK\$'000
Fees:		
Executive directors	—	—
Non-executive directors	360	—
	360	—
Other emoluments (executive directors):		
Salaries, bonus and other benefits	8,758	9,287
Housing benefits	3,870	—
Contributions to retirement benefits schemes	114	156
	12,742	9,443
	13,102	9,443

In addition to the directors' emoluments disclosed above, certain directors were granted share options under the Company's share option scheme. The details are set out in "Share Option Scheme" in the Directors' Report and note 24 to the accounts.

11. Directors' and Employees' Emoluments *(Continued)***Directors' emoluments of the Company** *(Continued)*

The emoluments of the directors fell within the following bands:

	2003 Number of directors	2002 Number of directors
Nil to HK\$1,000,000	2	2
HK\$1,500,001 to HK\$2,000,000	1	—
HK\$2,000,001 to HK\$2,500,000	1	1
HK\$2,500,001 to HK\$3,000,000	1	1
HK\$4,500,001 to HK\$5,000,000	—	1
HK\$6,000,001 to HK\$6,500,000	1	—

Employees' emoluments

The five individuals whose emoluments were the highest in the Group for the year include three directors (2002: three directors) whose emoluments are reflected in the analysis presentable above. The emoluments payable to the remaining two (2002: two) individuals during the year were as follow:

	2003 HK\$'000	2002 HK\$'000
Salaries, bonus and other benefits	4,251	4,718
Contributions to retirement benefits scheme	21	123
	4,272	4,841

The emoluments fell within the following bands:

	2003 Number of individuals	2002 Number of individuals
Nil to HK\$1,000,000	—	—
HK\$2,000,001 to HK\$2,500,000	2	1
HK\$2,500,001 to HK\$3,000,000	—	1

12. Retirement Benefits Schemes

The Group operates a defined contribution retirement scheme (the "ORSO Scheme") and a mandatory provident fund scheme (the "MPF Scheme") which comply with all the respective requirements under the Occupational Retirement Schemes Ordinance and Mandatory Provident Fund Ordinance.

Contributions to the ORSO Scheme are based on percentage ranging from five to nine per cent of the basic salary of the employees depending upon the length of employment.

12. Retirement Benefits Schemes *(Continued)*

The employees under ORSO Scheme are entitled to 100 per cent of the employer's contributions after 10 years of completed services, or at a reduced scale after completion of three to nine years' services. Forfeited contributions by the qualified employees who left the scheme prior to vesting fully in such contributions are used to reduce the Group's contributions.

Contributions to the MPF Scheme are calculated at five per cent of the relevant income of each employee up to a maximum amount of \$1,000 per month. All statutory contributions under the MPF Scheme are immediately fully vested on the employees.

The aggregate employer's contributions, net of forfeited contributions, which have been dealt with in the profit and loss account for the year amounted to:

	2003 HK\$'000	2002 HK\$'000
Gross employer's contributions	1,614	1,664
Less: Forfeited contributions utilised to offset employer's contributions for the year	(357)	(304)
Net employer's contributions charged to profit and loss account	1,257	1,360

13. Intangible Assets

	Group HK\$'000
COST	
At 1st July 2002	—
Additions	600
At 30th June 2003	600
ACCUMULATED AMORTISATION	
At 1st July 2002	—
Charge for the year	10
At 30th June 2003	10
NET BOOK VALUE	
At 30th June 2003	590

14. Fixed Assets

	Group				
	Leasehold improvements	Furniture and fixtures	Office equipment	Computer equipment	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
COST					
At 1st July 2002	2,878	511	1,269	2,035	6,693
Additions	—	7	4	598	609
Disposals	(1,058)	(34)	(57)	(86)	(1,235)
At 30th June 2003	1,820	484	1,216	2,547	6,067
ACCUMULATED DEPRECIATION					
At 1st July 2002	949	164	334	983	2,430
Charge for the year	570	90	239	644	1,543
Disposals	(433)	(10)	(52)	(48)	(543)
At 30th June 2003	1,086	244	521	1,579	3,430
NET BOOK VALUE					
At 30th June 2003	734	240	695	968	2,637
At 30th June 2002	1,929	347	935	1,052	4,263

15. Other Assets

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Deposits with the Compensation Fund of the HKFE	100	100
Reserve fund deposits with the Hong Kong Futures Exchange Clearing Corporation Limited ("HKFCEE")	1,500	1,500
Statutory deposits with the SEHK	200	100
Statutory deposits with the Securities and Futures Commission	100	50
Contributions to the Central Clearing and Settlement System Guarantee Fund	100	50
Admission fees paid to the Hong Kong Securities Clearing Company Limited	100	50
	2,100	1,850

16. Non-Trading Investments

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Listed equities in Hong Kong at fair value	23,176	16,782	8,549	—

A subsidiary of the Company has pledged listed investments of aggregate carrying amount of HK\$14,571,000 (2002: HK\$10,280,000) to a bank for the banking facilities.

17. Investments in Subsidiaries

	Company	
	2003	2002
	HK\$'000	HK\$'000
Unlisted shares, at cost	65,237	65,237
Amounts due from subsidiaries	38,000	11,000
Amounts due to subsidiaries	—	(4,557)
	103,237	71,680

The following is a list of the subsidiaries as at 30th June 2003. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation/ place of operation	Principal activities	Issued and fully paid share capital	Percentage of equity interest attributable to the Group	
				Direct	Indirect
Tanrich Financial (Management) Limited ("TFML")	British Virgin Islands/ Hong Kong	Investment holding	US\$10,000	100%	—
Tanrich Futures Limited ("TFL")	Hong Kong/ Hong Kong	Futures broking	\$30,000,000 (divided into 20,000,000 ordinary shares and 10,000,000 non-voting deferred shares of \$1 each)	—	100%

17. Investments in Subsidiaries *(Continued)*

Name of company	Place of incorporation/ place of operation	Principal activities	Issued and fully paid share capital	Percentage of equity interest attributable to the Group	
				Direct	Indirect
Tanrich Securities Company Limited ("TSCL")	Hong Kong/ Hong Kong	Securities broking, securities margin financing, underwriting and investment advisory services	\$40,001,000 (divided into 15,001,000 ordinary shares and 25,000,000 non-voting deferred shares of \$1 each)	—	100%
Tanrich Asset Management Limited ("TAML")	Hong Kong/ Hong Kong	Distribution of unit trusts, mutual funds, insurance-linked products and provision of personal financial consulting and planning services	\$11,001,000 (divided into 5,001,000 ordinary shares and 6,000,000 non-voting deferred shares of \$1 each)	—	100%
Tanrich Finance Limited ("TFIN")	Hong Kong/ Hong Kong	Provision of personal financing services	\$11,000 (divided into 1,000 ordinary shares and 10,000 non-voting deferred shares of \$1 each)	—	100%
Tanrich Capital Limited ("TCL")	Hong Kong/ Hong Kong	Provision of corporate finance advisory services	\$10,000,000	—	100%

In accordance with Articles of Association of each of TFL, TSCL, TAML and TFIN, holders of non-voting deferred shares are entitled to a fixed non-cumulative dividend at a rate of Hong Kong one cent (\$0.01) per non-voting deferred share when the profit exceeds \$100,000 million in any financial year.

18. Loans and Advances

	Group	
	2003	2002
	HK\$'000	HK\$'000
Loans and advances — unsecured	131	244
— secured	556	420
	687	664
Current portion of loans and advances	(341)	(384)
	346	280

19. Accounts Receivable

	Group	
	2003	2002
	HK\$'000	HK\$'000
Accounts receivable arising from the ordinary course of business of broking in securities and futures contracts:		
— securities cash clients	4,696	2,779
— securities margin clients	23,572	20,143
— securities clearing house and brokers	382	869
— futures clearing house and brokers		
— HKFECC	1,273	1,196
— brokers for commodity futures contracts on TGE and TOCOM	40,904	71,470
— brokers for commodity and currency futures contracts on other overseas exchanges	8,496	8,315
Accounts receivable from the provision of corporate finance advisory services	88	—
Accounts receivable arising from the provision of unit trusts and insurance-linked products agency services	2,599	72
	82,010	104,844

The accounts receivable from the HKFECC excludes a deposit of HK\$616,000 (2002: HK\$412,000) relating to the clients' monies.

19. Accounts Receivable *(Continued)*

Credit policy for margin lending activities

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

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

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

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

CCCWG is responsible for monitoring the margin call on a daily basis. It reviews the overall risk and credit control on a 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 represents the margin deposits maintained with the 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 is secured by clients' pledged securities, repayable on demand and bear interest at commercial rates. As at 30th June 2003 and 30th June 2002, included in the accounts receivables from securities margin clients were overdue margin calls of HK\$5,242,000 and HK\$3,651,000 respectively.

19. Accounts Receivable *(Continued)***Settlement terms** *(Continued)*

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
Within 30 days	1,725	—
31 — 90 days	229	—
91 — 180 days	—	—
181 — 270 days	3,252	—
271 — 360 days	36	3,651
	5,242	3,651

Provision of HK\$13,000 was made for an overdue margin call for the year ended 30th June 2003 (2002: Nil)

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 30th June 2003 and 30th June 2002, included in the accounts receivables from securities cash clients were receivables not settled on settlement date of HK\$915,000 and HK\$58,000 respectively.

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
Within 30 days	265	51
31 — 90 days	—	—
91 — 180 days	—	—
Over 180 days	650	7
	915	58

Provision of HK\$323,000 was made for these receivables not settled on settlement dates for the year ended 30th June 2003 (2002: Nil).

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.

20. Deposits, Prepayments and other Receivables

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Rental and other deposits	2,441	1,354	—	—
Prepayments and other receivables	2,134	16,345	—	29
	4,575	17,699	—	29

21. Cash and Bank Balances

The subsidiaries of the Company maintain trust accounts with authorised institutions as a result of their normal business transactions. At 30th June 2003, trust accounts not otherwise dealt with in these accounts amounted to HK\$36,714,000 (2002: HK\$40,145,000).

The subsidiaries of the Company pledge bank deposits as collaterals to authorised institutions from time to time for foreign exchange deferred trading and banking facilities. At 30th June 2003, they have pledged bank deposits of HK\$2,534,000 (2002: HK\$6,045,000) and HK\$1,763,000 (2002: HK\$772,500) to authorised institutions for foreign exchange deferred trading and banking facilities respectively.

22. Accounts Payable

	Group	
	2003	2002
	HK\$'000	HK\$'000
Accounts payable arising from the ordinary course of business of broking in securities and futures contracts:		
— securities cash clients	4,137	2,569
— securities margin clients	243	1,730
— futures clients	47,726	78,974
Accounts payable arising from the provision of unit trusts and insurance-linked products agency services	18	12
	52,124	83,285

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.

22. Accounts Payable *(Continued)*

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\$37,330,000 (2002: HK\$26,171,000).

23. Share Capital

	Ordinary share of HK\$0.1 each	
	No. of shares	HK\$'000
<i>Authorised:</i>		
At 1st July 2002 and 30th June 2003	1,000,000,000	100,000
<i>Issued and fully paid:</i>		
At 1st July 2002 and 30th June 2003	200,000,000	20,000
	Ordinary share of HK\$0.1 each	
	No. of shares	HK\$'000
<i>Authorised:</i>		
At 1st July 2001	1,000,000	100
Increase in authorised ordinary share capital pursuant to resolution passed on 11th January 2002	999,000,000	99,900
At 30th June 2002	1,000,000,000	100,000
<i>Issued and fully paid:</i>		
At 1st July 2001	—	—
Increase in share capital pursuant to resolution passed on 11th January 2002	1,779,900	178
Capitalisation issue pursuant to resolution passed on 7th January 2002	148,220,100	14,822
Public issue on 30th January 2002	50,000,000	5,000
At 30th June 2002	200,000,000	20,000

24. Share Option Scheme

In accordance with the Company's pre-listing share option scheme (the "Scheme"), which was adopted pursuant to a resolution passed on 7th January 2002, the directors may, at their absolute discretion, invite employees including directors, or bona fide consultants of the Company or any of its subsidiaries to take up options to subscribe for shares in the Company. A nominal consideration at HK\$1 is paid by the grantees for each lot of share options granted. Share options may be exercised in accordance with the terms of the Scheme at any time during the period commencing one year from the date of grant of the option and expiring on the years from the date on which the scheme was adopted.

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

	2003 Number of options	2002
At 1st July	19,790,000	—
Granted (Note (a))	—	20,000,000
Lapsed (Note (b))	(1,510,000)	(210,000)
At 30th June (Note (c))	18,280,000	19,790,000

- (a) Pursuant to the Scheme, share options were granted to certain directors, employees and bona fide consultants of the Group on 22nd February 2002 at the subscription price of HK\$0.72 per share which can be exercised at any time from 22nd February 2003 to 7th January 2012. Consideration of HK\$1.13 was received in respect of the share options granted. During the year, there was no share option granted and no respective consideration was received.
- (b) During the year, a total of 1,510,000 share options had lapsed in accordance with the terms and conditions of the Scheme due to the resignations of employees.
- (c) Share options outstanding at the end of the year have the following terms:

	2003 Number of options	2002	2003 Vested percentages	2002
Directors	6,550,000	4,600,000	100%	100%
Other employees	11,370,000	14,830,000	100%	100%
Bona fide consultants	360,000	360,000	100%	100%
	18,280,000	19,790,000		

25. Reserves

	Investment revaluation reserve HK\$'000	Share premium HK\$'000	Group Capital reserve (Note (a)) HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1st July 2001,					
as previously reported	17,974	—	39,832	1,428	59,234
Change in accounting policies					
— provision for net deferred tax liabilities (Note 2(o))	—	—	—	(169)	(169)
At 1st July 2001, as restated	17,974	—	39,832	1,259	59,065
Change in fair value of non-trading investments	(1,372)	—	—	—	(1,372)
Arising from reorganisation	—	—	1,004	—	1,004
Premium arising from the public offer and placing of shares	—	45,000	—	—	45,000
Capitalisation issue of shares	—	(14,822)	—	—	(14,822)
Share issue expenses	—	(13,041)	—	—	(13,041)
Profit for the year	—	—	—	30,319	30,319
Dividends (Note 9)	—	—	—	(16,000)	(16,000)
At 30th June 2002	16,602	17,137	40,836	15,578	90,153
At 1st July 2002	16,602	17,137	40,836	15,753	90,328
Change in accounting policies					
— provision for net deferred tax liabilities (Note 2(o))	—	—	—	(175)	(175)
At 1st July 2002, as restated	16,602	17,137	40,836	15,578	90,153
Change in fair value of non-trading investments	(2,956)	—	—	—	(2,956)
Profit for the year	—	—	—	10,224	10,224
Dividends (Note 9)	—	—	—	(11,000)	(11,000)
At 30th June 2003	13,646	17,137	40,836	14,802	86,421
Representing:					
Retained earnings at					
30th June 2003				14,802	
2003 final dividends proposed				(2,000)	
At 30th June 2003				12,802	

25. Reserves (Continued)

	Company				
	Investment revaluation reserve HK\$'000	Share premium HK\$'000	Contributed surplus (Note (b)) HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1st July 2001	—	—	—	—	—
Arising from reorganisation	—	—	65,059	—	65,059
Premium arising from the public offer and placing of shares	—	45,000	—	—	45,000
Capitalisation issue of shares	—	(14,822)	—	—	(14,822)
Share issue expenses	—	(13,041)	—	—	(13,041)
Profit for the year	—	—	—	6,196	6,196
Dividends (Note 9)	—	—	—	(6,000)	(6,000)
At 30th June 2002	—	17,137	65,059	196	82,392
At 1st July 2002	—	17,137	65,059	196	82,392
Change in fair value of non-trading investments	(801)	—	—	—	(801)
Profit for the year	—	—	—	22,334	22,334
Dividends (Note 9)	—	—	—	(11,000)	(11,000)
At 30th June 2003	(801)	17,137	65,059	11,530	92,925
Representing:					
Retained earnings at 30th June 2003				11,530	
2003 final dividends proposed				(2,000)	
At 30th June 2003				9,530	

(a) Capital reserve

The capital reserve of the Group represents the difference between the nominal value of the shares issued by the Company for the acquisition of the subsidiaries and the nominal value of the shares of the subsidiaries in issue at 30th June 2001, which were converted into deferred non-voting share capital on 11th January 2002.

25. Reserves *(Continued)***(b) Contributed surplus**

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

(c) Distributable reserve

As at 30th June 2003, in the opinion of the directors of the Company, the reserves of the Company available for distribution to shareholders amounted to HK\$75,788,000 (2002: HK\$65,255,000) subject to the restriction stated above.

26. Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2002: 16%).

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
At 1st July	175	169
Deferred taxation (credited)/charged to profit and loss account (Note 7)	(1,334)	6
At 30th June	(1,159)	175

Deferred income tax assets are recognised for tax loss carry 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\$27,256,000 (2002: HK\$24,884,000) to carry forward against future taxable income. This tax loss has no expiry date.

26. Deferred taxation *(Continued)*

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

Deferred tax liabilities

	Accelerated tax depreciation	
	2003	2002
	HK\$'000	HK\$'000
At 1st July	294	197
(Credited)/charged to profit and loss account	(29)	97
At 30th June	265	294

Deferred tax assets

	Decelerated tax depreciation		Unused tax losses	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st July	119	28	—	—
Credited to profit and loss account	37	91	1,268	—
At 30th June	156	119	1,268	—

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

	2003	2002
	HK\$'000	HK\$'000
Deferred tax assets	(1,162)	(3)
Deferred tax liabilities	3	178
	(1,159)	175

The amounts shown in the balance sheet include the following:

Deferred tax assets to be recovered after more than 12 months	(590)	(3)
Deferred tax liabilities to be settled after more than 12 months	3	62

26. Deferred taxation *(Continued)***Deferred tax assets** *(Continued)*

The investment sentiment has turned around in middle of 2003 and pushed the Hang Seng Index ("HSI") up 20 percent, breaking a three-year bear market. The HSI gained much ground in July and August and trading volume went up to a record high of 20 billion with the average trading volume for July and August recorded at 9.8 billion and 12 billion respectively. Some have forecast the HSI will rise to 12,000 by year-end.

All the economic data both local and abroad is indicating that an economic recovery is underway. With an upward trend for HSI and the accompanying increase in corporate finance and IPO activities, it is probable that 2004 and 2005 will be prosperous years for securities broking business.

The increase in trading volume in July and August 2003 has certainly revived the securities broking business in Hong Kong and it was manifested in our securities broking subsidiary, which started recording profits since July this year. With the actual operating figures in July and August 2003, the Tanrich securities broking subsidiary is forecasted to generate assessable profits of about HK\$3.3 million and HK\$4 million for years ended 30th June 2004 and 2005 respectively.

According to the Hong Kong SAAP 12 Income Taxes, when it is probable that future profit will be generated, carried forward tax losses from that operation can be applied in offsetting the future profits expected and a deferred tax asset recorded on the balance sheet. Thus a deferred tax asset of HK\$1,268,000 was recorded on the consolidated balance sheet.

The deferred asset however has to be reviewed regularly for its recoverability and validity of evidence that led to its recording in the first instance. If it is found that the assumptions or circumstances are no longer valid, the deferred tax asset will then be removed and charged to the profit and loss account.

27. Commitments and Contingent Liabilities**(i) Commitments under operating leases**

As at 30th June 2003, the Group had future aggregate minimum lease payments under non-cancellable operating lease as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Land and buildings		
Not later than one year	8,698	3,414
Later than one year and not later than five years	6,029	5,176
	14,727	8,590

27. Commitments and Contingent Liabilities *(Continued)***(ii) Other commitments**

As at 30th June 2003, the Company has undertaken to guarantee the banking facilities of HK\$100.5 million granted to two of its subsidiaries. The banking facilities were applied in their normal courses of business activities.

(iii) 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 the year ended:

	Group	
	Contract/notional amounts	Fair value liabilities
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 30th June 2003		
Equity index futures contracts — Trading	2,875	11
Foreign exchange currency futures contracts — Trading	61,348	101
Foreign exchange deferred trading — Hedging	50,687	—
At 30th June 2002		
Equity index futures contracts — Trading	1,061	1
Foreign exchange deferred trading — Hedging	120,900	7,588

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.

27. Commitments and Contingent Liabilities *(Continued)***(iii) Off-balance sheet financial instruments** *(Continued)*

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 counter party to a future contract defaults on its obligation to perform under the terms of the contract.

(iv) Contingent liability

A subsidiary of the Company has received a claim for compensation in respect of disputed trades. As the arbitration proceedings are at a preliminary stage, it is not currently possible to estimate the eventual outcome of the claim and based on legal advice to date, the directors consider that no provision needs to be made in the financial statements.

28. Related Party Transactions

During the year, the Group had the following transactions with a related company, THKHL and its subsidiaries, TREGL and ULIL. These related companies are all controlled by a combination of certain directors of the Company. These transactions were arisen in the ordinary course of the Group's business.

		Group	
		2003	2002
	Note	HK\$'000	HK\$'000
Operating leases on land and buildings	(a)	5,918	7,461
Rental expenses on staff quarter	(b)	3,870	—
Depreciation	(c)	2,148	1,852
Management fee income	(d)	(960)	(400)
Overhead recharged	(e)	—	1,183
Salaries and provident fund recharged	(f)	—	4,983
Commission income	(g)	—	(808)
Interest income	(h)	—	(356)

(a) The amount represented the rental expenses paid by the subsidiaries of the Company to TREGL for the use of office premises. The monthly rentals of these premises were determined with reference to the open market rentals. This arrangement was terminated in May 2003.

(b) 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 the open market rentals.

28. Related Party Transactions *(Continued)*

- (c) The amount represented the depreciation charge 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.
- (d) 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.
- (e) The amount represented certain operating expenses paid by THKHL on behalf of the subsidiaries of the Company. Those operating expenses directly attributable to TFL were allocated to TFL whilst any shared expenses were allocated on a relative headcount basis. This arrangement was terminated in January 2002.
- (f) The amount represented the staff cost charged by THKHL for the management and personnel supportive services provided to the Group. This arrangement was terminated in January 2002.
- (g) Tanrich Promotion Limited maintained an account with a subsidiary of the Company for trading in Japanese commodity futures contracts. The commission is charged at the same rate as that charged to third party customers.
- (h) Interest income was related to funding provided to THKHL and its subsidiary, Tanrich Financial Group Limited from subsidiaries of the Company where interest was charged at commercial rates. These arrangements were terminated upon the listing of shares of the Company.

29. Approval of Accounts

The accounts were approved by the Board of directors on 18th September 2003.

Five Year Financial Summary

Results:

	Financial Year Ended 30th June				
	1999	2000	2001	2002	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	69,938	94,009	123,445	161,295	126,689
Operating profit	21,940	24,533	28,565	38,897	12,893
Non-operating profit	—	—	34,200	—	—
Finance cost	(46)	(367)	(1,682)	(690)	(398)
Profit before taxation	21,894	24,166	61,083	38,207	12,495
Taxation	(2,808)	(3,680)	(5,228)	(7,888)	(2,271)
Profit attributable to shareholders	19,086	20,486	55,855	30,319	10,224
Dividends	15,000	26,000	64,000	25,000	4,000

Assets and Liabilities:

	Assets and Liabilities of the Group as at 30th June				
	1999	2000	2001	2002	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets	4,091	41,617	22,400	23,178	30,011
Current assets	71,122	93,518	170,875	197,664	149,726
Total assets	75,213	135,135	193,275	220,842	179,737
Current liabilities	(35,116)	(50,656)	(133,863)	(110,511)	(73,313)
Non-current liabilities	—	—	—	(178)	(3)
Total liabilities	(35,116)	(50,656)	(133,863)	(110,689)	(73,316)
Net total assets	40,097	84,479	59,412	110,153	106,421
Current ratio	2.03	1.85	1.28	1.79	2.04
Gearing ratio	2.7%	13.8%	47.3%	0.2%	0%

Note:

- The results of the Group for the three years ended 30th June 1999, 2000 and 2001 have been prepared on a combined basis as if the current Group structure had been in existence throughout the years concerned and have been extracted from the Prospectus. The results of the Group for the year ended 30th June 2002 and 2003 and its assets and liabilities as at 30th June 2002 and 2003 have been extracted from the accompanying audited financial statements.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the annual general meeting of shareholders of Tanrich Financial Holdings Limited (the "Company") will be held at 10:00 a.m. (Hong Kong time) on Tuesday, 21st October 2003 at Chater Room I, Function Room Level, The Ritz-Carlton Hong Kong, 3 Connaught Road Central, Hong Kong in order to consider the following business:

1. To receive the audited consolidated financial statements and the reports of the Directors and Auditors of the Company for the year ended 30th June 2003.
2. To re-elect retiring Director(s) of the Company.
3. To re-appoint PricewaterhouseCoopers as the Auditors of the Company to hold office until the conclusion of the next annual general meeting and authorise the Directors of the Company to fix their remuneration.
4. To declare a final dividend of HK1 cent per share for the year ended 30th June 2003.
5. As Special Business, to consider and, if thought fit, pass the following resolutions as Ordinary Resolutions:—

A. **"THAT:—**

- (i) subject to sub-paragraph (iii) of this Resolution, the exercise by the directors of the Company (the "Directors") during the Relevant Period (as defined below) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company or securities convertible into shares of the Company and to make or grant offers, agreements and options (including, without limitation, warrants to subscribe for shares or securities convertible or exchangeable into shares of the Company) which might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (ii) the approval in sub-paragraph (i) of this Resolution shall be in addition to any other authorisation given to the Directors and shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options (including, without limitation, warrants to subscribe for shares or securities convertible or exchangeable into shares of the Company) which might require the exercise of such powers after the end of the Relevant Period;

- (iii) the aggregate nominal amount of share capital of the Company allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to the approval in sub-paragraph (i) of this Resolution, otherwise than pursuant to (a) a Rights Issue (as defined below), (b) an issue of shares of the Company upon the exercise of rights of subscription or conversion under the terms of any warrants or any securities convertible into shares of the Company or similar instruments requiring the Company to issue shares, (c) an issue of shares of the Company upon the exercise of any options or other subscription rights under any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company, or (d) any scrip dividend or similar arrangement providing for the allotment of shares of the Company in lieu of the whole or part of the cash payment for a dividend on shares of the Company in accordance with the bye-laws of the Company, shall not exceed an aggregate of 20 per cent of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this Resolution and the said approval shall be limited accordingly; and

- (iv) for the purposes of this Resolution:—

“Relevant Period” means the period from the date of passing of this Resolution until whichever is the earliest of:

- (a) the conclusion of the next annual general meeting of the Company;
- (b) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or the Companies Act 1981 of Bermuda (as amended) or any applicable laws to be held; and
- (c) the date on which the authority set out in this Resolution is revoked or varied by an ordinary resolution of the shareholders of the Company.

“Rights Issue” means an offer of shares or other securities of the Company open for a period fixed by the Directors to holders of shares of the Company or any class thereof whose names appear on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares or class thereof (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory applicable to the Company).”

B. **“THAT:—**

- (i) subject to sub-paragraph (ii) of this Resolution, the exercise by the directors of the Company (the “Directors”) during the Relevant Period (as defined below) of all the powers of the Company to purchase shares in the capital of the Company and/or other securities of the Company, subject to the requirements set out in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, be and is hereby generally and unconditionally approved;
- (ii) the aggregate nominal amount of the shares of the Company to be purchased or agreed conditionally or unconditionally to be purchased by the Company pursuant to the approval in sub-paragraph (i) of this Resolution during the Relevant Period shall not exceed 10 per cent of the aggregate nominal amount of the share capital of the Company in issue at the date of passing of this Resolution, and the said approval shall be limited accordingly; and
- (iii) for the purposes of this Resolution:—

“Relevant Period” means the period from the date of passing of this Resolution until whichever is the earliest of:—

- (a) the conclusion of the next annual general meeting of the Company;
- (b) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or the Companies Act 1981 of Bermuda (as amended) or any applicable laws to be held; and
- (c) the date on which the authority set out in this Resolution is revoked or varied by an ordinary resolution of the shareholders of the Company.”

- C. **“THAT** subject to the passing of Resolution 5A and Resolution 5B set out in the notice convening the meeting at which this Resolution is considered, the aggregate nominal amount of shares of the Company which are purchased by the Company after the date of the passing of this Resolution (up to a maximum of 10 per cent of the aggregate nominal amount of the share capital of the Company as stated in Resolution 5B set out in the notice convening the meeting at which this Resolution is considered) shall be added to the aggregate nominal amount of share capital that may be allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to Resolution 5A set out in the notice convening the meeting at which this Resolution is considered.”

By Order of the Board
Io Cheok Kei, Rudy
Company Secretary

Hong Kong, 18th September 2003

Notice of Annual General Meeting

Notes:

1. Any member entitled to attend and vote at the meeting shall be entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at the meeting. A proxy need not be a member of the Company.
2. A form of proxy for the meeting is enclosed herewith. Completion and return of the form of proxy will not preclude a member from attending and voting in person at the meeting. In the event that a member who has lodged a form of proxy attends the meeting, his form of proxy will be deemed to be revoked.
3. In order to be valid, the form of proxy completed in accordance with the instructions set out therein, together with the power of attorney or other authority (if any) under which it is signed (or a certified copy of such power or authority), must be delivered to the principal place of business of the Company in Hong Kong situated at 16th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or adjourned meeting.
4. Where there are joint holders of any share, any one of such joint holder may vote, either in person or by proxy, at the meeting in respect of such share as if he was solely entitled thereto, but if more than one of such joint holders be present at the meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
5. An explanatory statement regarding the general mandate for the purchase of shares sought in the Ordinary Resolution set out in 5B above will be circulated with the 2003 Annual Report and Accounts to be sent to shareholders.