

## **NOTES TO THE CONDENSED PROFORMA COMBINED INTERIM ACCOUNTS**

### **1. Basis of preparation, group reorganisation and accounting policies**

#### *(a) Basis of preparation*

These unaudited condensed proforma combined interim accounts ("Proforma Interim Accounts") are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants.

These Proforma Interim Accounts should be read in conjunction with the Accountants' Report as contained in the prospectus of the Company dated 21st January 2002.

Although the current group structure resulting from the reorganisation as detailed in note 1(b) did not legally exist until 11th January 2002, the Directors consider that it is more appropriate and meaningful to treat the Group as a continuing entity and the Company as the holding company of the Group as if the current group structure has been in existence throughout the reporting period. Accordingly, the Proforma Interim Accounts have been prepared on the basis of merger accounting as if the current group structure has been in existence throughout the periods presented. All significant intra-group transactions and balances have been eliminated.

In the opinion of the Directors, the Proforma Interim Accounts prepared on the above basis present more fairly the results and state of affairs of the Group as a whole in light of the reorganisation and subsequent listing of the shares of the Company.

#### *(b) Group reorganisation*

The Company was incorporated as an exempted company with limited liability in Bermuda on 4th September 1998. Pursuant to a reorganisation scheme to rationalise the structure of the Group in preparation for the public listing of its shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the following subsidiaries on 11th January 2002:

- Tanrich Financial Group (BVI) Limited ("TFGBVI")
- Tanrich Futures Limited ("TFL")
- Tanrich Securities Company Limited ("TSCL")
- Tanrich Finance Limited ("TFIN")
- Tanrich Asset Management Limited ("TAML")

The Company's shares were listed on the Stock Exchange on 30th January 2002. The details of the group reorganisation were in Appendix IV of the prospectus of the Company dated 21st January 2002.

*(c) Accounting policies*

The accounting policies and methods of computation used in the preparation of these Proforma Interim Accounts are consistent with those used in the Accountants' Report dated 21st January 2002 except that the Group has changed certain of its accounting policies following its adoption of the following SSAPs issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1st January 2001:

SSAP 9 (revised):	Events after the balance sheet date
SSAP 26:	Segment reporting

The changes to the Group's accounting policies and the effect of adopting these new policies is set out below:

- SSAP 9 (revised): Events after the balance sheet date

In accordance with the revised SSAP 9, the Group no longer recognises dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. As there was no final dividend proposed after balance sheet date in last financial year, no prior year adjustment is required.

- SSAP 26: Segment reporting

In Note 2 to these Proforma Interim Accounts the Group has disclosed segment turnover and results as defined under SSAP 26. In accordance with the Group's internal financial reporting policy, the Group has determined that business segments be presented as the primary reporting format. Comparative information has been given.

- Trust accounts

Trust accounts maintained by the subsidiaries of the Company to hold clients' monies are no longer recognised as an asset in the accounts. Accordingly, the amounts previously recognised as "Cash and bank balances – segregated account" and the clients' monies deposited in a designated account maintained with the Hong Kong Futures Exchange Clearing Corporation Limited classified under accounts receivable on the balance sheet were taken off balance sheet and netted off against the corresponding amounts classified under accounts payable. The comparative figures presented have been restated to conform with the current period's presentation.

## 2. Segmental information

An analysis of the Group's turnover and contribution to operating profit by principal activities is as follows:

	Turnover		Contribution to operating profit	
	Six months ended 31st December		Six months ended 31st December	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
<b>Brokerage activities:</b>				
Broking of commodity futures contracts on Tokyo Grain Exchange ("TGE") and Tokyo Commodity Exchange ("TOCOM")	66,168	40,870	23,074	10,090
Broking of commodity futures contracts on other overseas exchanges	39	119	17	31
Broking of futures and rolling forex contracts on the Hong Kong Futures Exchange Limited	889	976	377	(5,036)
Broking of securities on the Stock Exchange	2,310	3,946	(2,429)	58
Broking of securities on other overseas exchanges	15	–	–	–
<b>Advisory and asset management activities:</b>				
Corporate finance and asset management activities	23	497	(1,053)	(451)
Agency service for distribution of unit trust and insurance-linked products	1,301	864	(1,223)	(1,320)
<b>Money lending activities:</b>				
Securities margin financing	1,070	2,461	(1,501)	(823)
Money lending	280	94	7	73
<b>Proprietary trading activities</b>	<b>2,766</b>	<b>387</b>	<b>2,750</b>	<b>368</b>
<b>Interest income from clearing houses, banks and others</b>	<b>1,841</b>	<b>2,784</b>	<b>1,841</b>	<b>2,784</b>
	<b>76,702</b>	<b>52,998</b>	<b>21,860</b>	<b>5,774</b>

No geographical analysis on turnover or operating profit is provided as all business are concluded and transacted in Hong Kong.

## 3. Taxation

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profit for the period.

All profits of the company were generated from Hong Kong. No overseas taxation has been provided.

#### 4. Dividends

	Six months ended 31st December	
	2001	2000
	<b>\$'000</b>	<b>\$'000</b>
Interim proposed of HK\$0.03 (2000: N/A) per ordinary share (Note a)	<b>6,000</b>	–
Dividend paid by a subsidiary of the Company (Note b)	<b>10,000</b>	25,000
	<b>16,000</b>	25,000

Note (a): At a board meeting held on 16th March 2002, the Directors declared an interim dividend of three cents per share. This proposed dividend is not reflected as dividend payable in these accounts but will be reflected as an appropriation of retained earnings for the year ending 30th June 2002.

Note (b): During the six months ended 31st December 2001, a dividend of HK\$10,000,000 was paid by a subsidiary of the Company to its then shareholders prior to the Group's reorganisation and the listing of the Company's shares on the Stock Exchange

#### 5. Earnings per share

The calculation of the basic earnings per share for the six months ended 31st December 2001 is based on the combined profit attributable to shareholders for the period of HK\$17,418,000 (2000: HK\$17,949,000), and on the assumption that 150,000,000 shares were in issue during the period and the previous period. These 150,000,000 shares comprised 1,000,000 shares in issue as at 31st December 2001 and 149,000,000 shares issued in January 2002 pursuant to the capitalisation issue as described in the Note 11(ii) and (iv).

As there was no dilutive potential share as at 31st December 2001, diluted earnings per share is not applicable.

#### 6. Fixed assets

	Leasehold improvements	Furniture and fixtures	Office equipments	Computer equipments	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Net book value at 30th June 2001</b>	925	227	347	882	2,381
Additions	74	131	489	757	1,451
Disposals	–	–	–	(20)	(20)
Depreciation	(155)	(33)	(76)	(177)	(441)
<b>Net book value at 31st December 2001</b>	<b>844</b>	<b>325</b>	<b>760</b>	<b>1,442</b>	<b>3,371</b>

#### 7. Non-trading investments

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

## 8. Accounts receivable

	<b>31st December</b>	<b>30th June</b>
	<b>2001</b>	<b>2001</b>
	<b>\$'000</b>	<b>\$'000</b>
Accounts receivable arising from the ordinary course of business of broking in securities, index futures, rolling forex and commodity futures contracts:		
– securities cash clients	952	2,434
– securities clearing house, brokers and dealers	565	5,475
– futures clearing house, brokers and dealers		
– Hong Kong Futures Exchange Clearing Corporation Limited	15,072	8,476
– brokers for commodity futures contracts on TGE and TOCOM	80,221	87,055
– broker for commodity futures contracts on other overseas exchanges	1,464	1,222
Accounts receivable from securities margin clients	17,404	18,759
Accounts receivable arising from provision of:		
– unit trust and insurance-linked products agency services	355	244
– subscription for securities	–	2,259
	<b>116,033</b>	<b>125,924</b>

The accounts receivable from Hong Kong Futures Exchange Clearing Corporation Limited excludes a deposit of HK\$5,205,000 (30th June 2001: HK\$13,447,000) relating to the clients' monies. In the Accountants' Report contained in the prospectus of the Company dated 21st January 2002, these amounts were included on the balance sheet.

### Credit policy for margin lending activities

Accounts receivable from securities margin clients represents loans granted to the securities margin clients by 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 ("CCC"). The clients are allowed to trade only after the account opening and credit limit approval processes 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 risk control committee ("RCC"), for calculating the stock margin values. RCC reviews and determines the margin ratios for the stock collateral on a bi-weekly 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.

CCC is responsible for monitoring the margin call on a daily basis. It decides the actions to be taken, should the margin clients fail to meet the margin call, based on the margin call amount, the pledged securities value, the client creditability and the overdue period.

The directors of TSCL also monitor the margin call amount on a weekly basis. 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 futures, commodity futures and rolling forex contracts transactions represent the margin deposits maintained with 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 deposit stipulated are repayable on demand.

Accounts receivable from margin clients are secured by clients' pledged securities, are repayable on demand and bear interest at commercial rates. As at 31st December 2001 and 30th June 2001, included in the accounts receivables from securities margin clients were overdue margin calls of \$4,069,000 and \$4,652,000 respectively.

The ageing analysis of the overdue margin call were as follows:

	<b>31st December 2001 \$'000</b>	<b>30th June 2001 \$'000</b>
Within 30 days	499	928
31 – 90 days	–	27
91 – 180 days	–	3,605
181 – 270 days	–	91
271 – 360 days	3,570	1
	<b>4,069</b>	<b>4,652</b>

Provisions of HK\$3.5 million were made for these overdue margin calls as at 31st December 2001 and 30th June 2001.

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. As at 31st December 2001 and 30th June 2001, included in the accounts receivables from securities cash clients were receivables not settled on settlement date of \$369,000 and \$491,000 respectively. All these balances were subsequently settled.

The ageing analysis of the accounts receivable from cash clients which had not been settled on settlement date were as follows:

	<b>31st December 2001 \$'000</b>	<b>30th June 2001 \$'000</b>
Within 30 days	<b>361</b>	<b>484</b>
31 – 90 days	<b>2</b>	<b>–</b>
91 – 180 days	<b>–</b>	<b>–</b>
Over 180 days	<b>6</b>	<b>7</b>
	<b>369</b>	<b>491</b>

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

## 9. Cash and bank balances

The subsidiaries of the Company maintain trust accounts with authorised institutions as a result of its normal business transactions. At 31st December 2001, trust accounts not otherwise dealt with in these Proforma Interim Accounts amounted to HK\$52,493,000 (30th June 2001: HK\$40,465,000).

## 10. Accounts payable

	<b>31st December 2001 \$'000</b>	<b>30th June 2001 \$'000</b>
Accounts payable arising from the ordinary of business of broking in securities, index futures, rolling forex and commodity futures contracts:		
– securities cash clients	<b>555</b>	<b>1,931</b>
– securities margin clients	<b>12</b>	<b>788</b>
– securities clearing house, brokers and dealers	<b>–</b>	<b>2,477</b>
– futures clients	<b>80,873</b>	<b>87,470</b>
Accounts payable arising from provision of:		
– unit trust and insurance-linked products agency services	<b>3</b>	<b>5</b>
	<b>81,443</b>	<b>92,671</b>

The accounts payable arising in the ordinary of business of broking in securities, index futures, rolling forex and commodity futures contracts are current and repayable on demand.

The accounts payable is stated net of clients' segregated assets of HK\$55,119,000 (30th June 2001: HK\$42,439,000). In the Accountants' Report contained in the prospectus of the Company dated 21st January 2002, these amounts were included on the balance sheet.

## 11. Share capital

For the purposes of this report, the share capital as at 31st December 2001 and 30th June 2001 represented the aggregate amount of paid up share capital of the companies comprising the Group as at the respective dates.

As at the date of incorporation of the Company, its authorised share capital was HK\$100,000 divided into 1,000,000 shares of HK\$0.10 each, all of which were allotted and issued nil-paid on 4th September 1998.

The following changes in the share capital of the Company took place subsequent to 31st December 2001:

- i. Pursuant to the written resolution of the sole shareholder of the Company on 11th January 2002, the authorised share capital of the Company was increased from HK\$100,000 to HK\$100,000,000 by the creation of an additional 999,000,000 new shares of HK\$0.10 each to rank equally with the existing shares.
- ii. On the same date, the Company issued a further 779,900 shares of HK\$0.10 each at par in exchange for the shares of TFGBVI.
- iii. On 30th January 2002, pursuant to the offer of the Company's shares, 50,000,000 ordinary shares of HK\$0.10 each were issued to the public and institutional investors at HK\$1.00 per share ("New Issue") for cash. The excess of the issued proceeds over the par value of the shares issued were credited to the share premium account.
- iv. Immediately following the New Issue, 148,220,100 ordinary shares of HK\$0.10 each were issued at par to the shareholders whose names appear on the register of members of the Company as at 7th January 2002 by way of capitalisation of a sum of HK\$14,822,010 standing to the credit of the share premium account.



**12. Reserves**

	Investment Revaluation Reserve \$'000	Retained Earnings \$'000	Total \$'000
At 1st July 2000	36,896	9,573	46,469
Change in fair value of non-trading investments	4,375	–	4,375
Sale of non-trading investments	(23,297)	–	(23,297)
Profit for the year	–	55,855	55,855
Dividend	–	(64,000)	(64,000)
<b>At 30th June 2001</b>	<b>17,974</b>	<b>1,428</b>	<b>19,402</b>
At 1st July 2001	17,974	1,428	19,402
Change in fair value of non-trading investments	(2,677)	–	(2,677)
Profit for the period	–	17,418	17,418
Dividend ( <i>Note 4</i> )	–	(10,000)	(10,000)
<b>At 31st December 2001</b>	<b>15,297</b>	<b>8,846</b>	<b>24,143</b>
<b>Appropriation of retained earnings</b>			<i>\$'000</i>
Retained earnings			2,846
Interim dividend proposed			6,000
			<b>8,846</b>

### 13. Related party transactions

During the period, the Group had the following transactions with a related company, Tanrich (Hong Kong) Holdings Limited ("THKL") and its subsidiaries TFGL, Tanrich Real Estate Group Limited ("TREGL"), and Tanrich Promotion Limited ("TPL"). These related companies are all controlled by a combination of directors of the companies now comprising the Group. These transactions were arisen in the ordinary course of the Group's business.

		Six months ended 31st December	
	<i>Note</i>	<b>2001</b> <b>\$'000</b>	2000 \$'000
Operating leases on land and buildings	<i>(a)</i>	<b>3,924</b>	4,292
Overhead recharged	<i>(b)</i>	<b>1,062</b>	1,298
Depreciation	<i>(c)</i>	<b>926</b>	–
Salaries and provident fund recharged	<i>(d)</i>	<b>4,358</b>	3,889
Commission income	<i>(e)</i>	<b>(808)</b>	(631)
Interest income	<i>(f)</i>	<b>(342)</b>	–
Interest expenses	<i>(f)</i>	<b>–</b>	209

- (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 open market rentals.
- (b) The amount represented certain operating expenses paid by THKL on behalf of TFL. Those operating expenses directly attributable to TFL were allocated to TFL whilst any shared expenses were allocated on a relative headcount basis.
- (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 by THKL for the management and personnel supportive services provided to the Group. Those staff costs were allocated to the Group based on the amount of work attributable to the Group.
- (e) TPL has 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.
- (f) Interest income/expenses were related to funding provided to/by THKL and its subsidiary, TFGL from/to the subsidiaries of the Company where interest was charged at commercial rates.

### 14. Subsequent events

Other than those disclosed in Note 1(b) and Note 11 regarding the group reorganisation, there were no significant events subsequent to 31st December 2001.

On behalf of the Board  
**Yip Man Fan**  
Chairman

Hong Kong, 18th March 2002