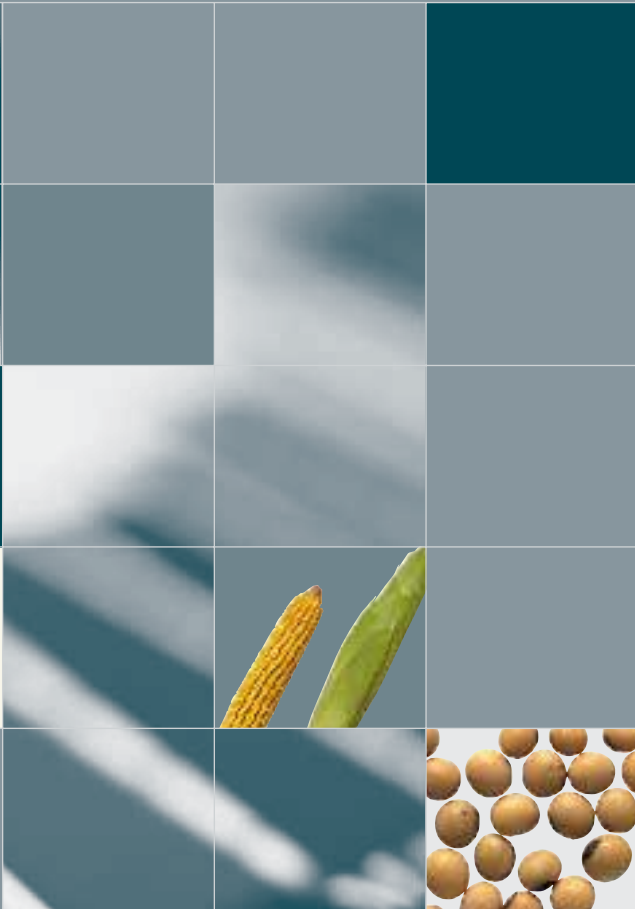
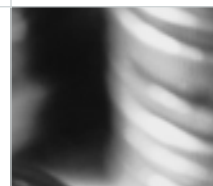


# Comprehensive Financial Services



By solidifying the market leadership of its core business and focusing on developing diversified business, Tanrich is well positioned to grasp every potential business opportunity.



Tanrich strives to cement and perfect its position as a comprehensive financial services provider, to offer customers with quality futures and securities broking, securities margin financing, asset management as well as corporate finance services.

### Industry Overview

During the period under review, the equity market in Hong Kong was affected by the slumping stock market as a result of the adverse impacts from the global economic slowdown and the 9/11 Incident. The average daily trading volume on the Stock Exchange was HK\$7 billion, and the HSI index reached as low as 8,934.20. Fortunately, with the Group's continuous provision of quality and essential financial products, including bonds and guaranteed funds, as well as the Japanese commodity futures. The Group has been able to achieve encouraging growth even under the adverse operating and economic environment.

The Group places extra focus and commits vast resources into market development and new and potential business opportunities, while Japan, recognised as one of the largest commodity futures markets in the world, has been operating its TGE and TOCOM since 1952 and 1984 respectively. Together, the Group and Japanese commodity futures market has grown along side to explore the vast opportunities. Due to the

growing number of transaction contracts, the performance of the commodity futures market in Japan recorded encouraging performance. For the year ended 30th June 2002, turnover of TGE futures in Hong Kong reached 369,740 contracts as compared to 262,921 contracts for the corresponding period in 2001. Appointed as the authorised overseas agent by TGE and TOCOM since 1994, the Group is well positioned to benefit from Japanese commodity futures that possess further room for growth and development.

### Operation Review

For the year ended 30th June 2002, the Group recorded an increase in turnover of 30.7%, from HK\$123.4 million to HK\$161.3 million. Profit from operating activities surged by 42.1% from HK\$26.9 million to HK\$38.2 million, whereas the profit attributable to shareholders declined by 45.7% to HK\$30.3 million as compared to the corresponding period last year. This was due to the exceptional gain of HK\$34.2 million from disposal of non-trading investment in the past year.



Shareholders' fund reached HK\$110.3 million, representing an increase of 85.7% over the corresponding period of last year, while net profit margin (excluding the exceptional gain from disposal of non-trading investment) also increased from 17.5% to 18.8%. For the year ended 30th June 2002, basic earnings per share was HK\$17.8 cents. Below is a detailed description of the Group's extensive product portfolio that contributed to the growth of its business.

#### **Futures**

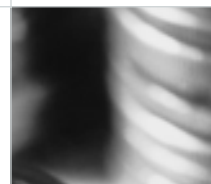
Due to the weak market environment, many investors are looking for alternative investment tools. During the period under review, the Group's futures business contributed to 91% of its total turnover. The Group's turnover of TGE futures reached 334,556 contracts as compared to 238,753 contracts for the same period in 2001, while turnover of its TOCOM futures reached 20,406 contracts as compared to 5,282 contracts for the same period in 2001. Despite the challenging operating environment, the Group was able to record growth because of its unrivaled market leadership position in Japanese commodity futures market in Hong Kong. The Group has committed to offering quality new products, such as the Euro-dollar deposit futures, that were well received by the market and contributed to enhancing the Group's popularity and recognition. Coupled with the restructuring of its futures business operations, the Group has continued to enjoy a steady revenue stream.

The Group has successfully accumulated an extensive customer base which witnesses its steady development and expansion. The Group will endeavor to maintain its upward climb by recruiting more and more professionals and experts to maximise satisfaction and profitability for its customers.

#### **Securities Broking and Margin Financing**

Realising that it is inevitable to suffer from the impacts of the global economic downturn, the Group has put in its best efforts to minimise decreases in turnover of its securities broking and securities margin financing business. The under-performing securities market affected the Group's securities broking and margin financing business, which decreased by 43% and 60% respectively and amounted to HK\$3,917,000 and HK\$1,502,000. Targeting institutional, corporate and retail investors, the Group will adopt a prudent and conservative margin financing policy and a strict control on margin lending as an effort to control the risk level to better protect its customers. For the period under review, securities broking and margin financing contributed to 3.4% in aggregate to the Group's total turnover, and there was no bad debts recorded.

## Management Discussion and Analysis



### **Asset Management**

Asset management has grown to become a core focus in today's financial world. Investors can utilise asset management to diversify their investment portfolio as well as to manage their assets. Such is the reason why the Group has established its asset management division in 1997, so as to provide customers with professional and customised asset management services to maximise the value of their assets efficiently. As an effort to offer even more comprehensive financial services, the Group distributes over 600 funds, including global equity, fixed income, forex and derivatives, etc., that are managed by over 20 international asset management companies. In addition to providing financial planning services and insurance-linked products, the Group will continuously introduce different products to further expand its customer base. During the period under review, the turnover of Group's asset management business amounted to HK\$1,952,000.

### **Corporate Finance**

The Group's corporate finance business commenced operation since 1999 to offer financial services including financial advisory, fund raising, underwriting and sub-underwriting as well as placement activities. During the period under review, the Group's corporate finance business has handled 7 underwriting deals and 3 private equity deals.

### **Internal Control & Risk Management**

Well aware that a prudent control procedure and a stringent internal control are key success factors in the financial world, the Group has allocated much time, effort and resources into ensuring that the Group minimises its risk exposure to the customers.

#### **Investment Committee**

The investment committee, which consists of the chief executive, the managing director, the directors of subsidiaries of the Company and the senior manager of research division, is focused on formulating the investment strategies for the Group. The committee meets on a weekly basis to review and to assess the investments made as an effort to minimise its risk exposure.

#### **Risk Control Committee**

The committee, comprising of members of Board of Directors and the senior manager of legal and compliance division is established to develop and implement any business risk minimisation policies and procedures according to the prescribed strategies so as to confine business risks including but not limited to credit, market and operational risks.

#### **Credit Control Committee**

Comprising of members of Board of Directors and the sales director of a subsidiary of the Company, the credit control committee is also to administer the credit and control policies and procedures formulated by the risk control committee.



## Future Growth Strategies

Looking ahead, the Group will strive to maintain its leading position in Japanese commodity futures by further diversifying its business, developing new products that cater to market demand and customer needs as well as enhancing its income stream. With strict and uncompromising quality and internal control measures to minimise risk exposure, advanced technologies and information systems that can enhance the overall efficiency and customer service standards, a dynamic and visionary management team that can lead the Group to higher horizons as well as continuous recruitment of experts and professionals for its asset management and corporate finance divisions, the Group is well positioned to further expand its market coverage and strengthen reputation in the Hong Kong market.

With China's accession into WTO, the Group will grasp and capture every rising opportunity so as to become a dynamic provider of comprehensive financial services in Hong Kong.

## Liquidity and Financial Resources

The working capital of the Group was generally financed by the internally generated cash flow and proceeds from the initial public offer ("IPO"). As at 30th June 2002, the Group has cash and bank balances that totaled to HK\$74.7 million (2001: HK\$7.0 million), while net current asset amounted to HK\$87.2 million

(2001: HK\$37.0 million). The liquidity of the Group demonstrated by the current ratio was 1.8 times which showed improvement from the 1.3 times applicable in the previous year.

The gearing ratio, which is calculated by dividing the Group's total borrowings by its total equity, was approximately 0.2% for year 2002 (2001: 47.3%). Due to the improved gearing ratio, the Group can enjoy a sound financial health for its future development and expansion.

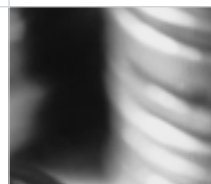
As at 30th June 2002, the Group had aggregate banking facilities of HK\$86.0 million (2001: HK\$100.0 million) of which HK\$0.2 million (2001: HK\$28.1 million) was utilised as short-term bank loans and overdrafts. The maturity profile of the bank loans and overdraft of the Group is set out in note 21 to the accounts.

### Charge on Group Assets

Marketable securities with an aggregate value of approximately HK\$10.3 million (2001: HK\$11.1 million) were pledged as collateral for bank borrowings. These marketable securities were beneficially owned by a subsidiary of the Company and its margin clients.

## Contingent Liabilities

As at 30th June 2002, the Company has undertaken to guarantee all banking facilities of HK\$86 million granted to two subsidiaries of the Company. The banking facilities were applied in their normal courses of business activities.



## 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 future 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 the use of USD/JPY foreign exchange deferred trading in order to minimise foreign exchange risk.

As at 30th June 2002, the Group's total margin deposit placed with the two designated future commission merchants was 2,089 million Japanese Yen, which was equivalent to approximately HK\$136.2 million. This amount was hedged with USD/JPY foreign exchange deferred trading which equivalent to an aggregate amount of US\$15.5 million, representing 88.6% of the Group's net foreign exchange exposure.

## Use of proceeds from IPO

Following the successful listing of the Group's shares on the Main Board of the Stock Exchange on 30th January 2002, with the net proceeds of the IPO, after deduction of related expenses, amounted to approximately HK\$37 million. The Company has applied part of the listing proceeds according to the plans as mentioned in the Prospectus.

- Approximately HK\$15 million for expanding the Group's securities broking and share margin financing businesses;

- Approximately HK\$8 million for enhancing the Group's information system so as to improve its overall efficiencies and risk control system;
- Approximately HK\$5 million for expanding the Group's corporate finance and asset management businesses;
- Approximately HK\$5 million for setting up additional branch offices to strengthen the Group's retail network in Hong Kong; and
- The balance of approximately HK\$4 million as general working capital.

Currently, the above net proceeds of approximately HK\$30.7 million remains unused and is placed in short term deposits with financial institutions in Hong Kong.

## Corporate Governance

None of the Directors of the Company is aware of any information which would indicate that the Group is not, or was not, in compliance with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") at any time during the year ended 30th June 2002.



## Audit Committee

This committee, with members including two Independent Non-executive Directors, serves to assist the Board in fulfilling its duties by providing an independent and objective review of the adequacy and effectiveness of the financial reporting process and internal control system of the Group.

## Staff

As at 30th June 2002, the Group had a total of 218 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 salary and year-end discretionary bonuses subject to the business results of the Group. Employees' remuneration excluding directors' emoluments amounted to HK\$71.1 million for the year (2001: HK\$50.9 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.