

Notes to the Accounts

I. Group Reorganisation and Basis of Preparation

(a). Group Reorganisation

The Company was incorporated in Bermuda under the Companies Act as an exempted company with limited liability. Pursuant to the Reorganisation to rationalise the structure of the Group in preparation for the public listing of the Company's shares on the Stock Exchange, the Company became the holding company of the Group on 11th January 2002.

The Company's shares were listed on the Stock Exchange on 30th January 2002.

The Reorganisation is accounted for using merger accounting as permitted by the Hong Kong Statement of Standard Accounting Practice ("SSAP") 2.127 "Accounting for group reconstructions". The consolidated accounts of the Group for the year ended 30th June 2002, including the comparative figures, are prepared as if the Company had been the holding company of the Group from the beginning of the earliest period presented.

Further details of the Reorganisation are set out in the Prospectus and the details of the subsidiaries acquired pursuant to the Reorganisation are set out in note 15 to the accounts. The shares of the Company were listed on the Stock Exchange on 30th January 2002.

(b). Basis of preparation of the accounts

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.

The Company remained inactive during the period from 3rd September 1998 (date of incorporation) to 30th June 2002 and had no results for the period or assets or liabilities as at 30th June 2001. Accordingly, no balance sheet has been presented for the Company for last year.

2. Principal Accounting Policies

In the current year, the Company adopted the following SSAP issued by the HKSA 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
SSAP 28	:	Provisions, contingent liabilities and contingent assets
SSAP 31	:	Impairment of assets
SSAP 32	:	Consolidated financial statements and accounting for investments in subsidiaries

The accounting policies set out below have taken into account the adoption of these new standards.

Notes to the Accounts

2. Principal Accounting Policies (Cont'd)

(a). Consolidation

The Reorganisation referred to in note 1 above has been accounted for using merger accounting by regarding the Company as being the holding company of the Group from the beginning of the earliest period presented.

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 Group controls the composition of the board of directors, controls more than half of the voting power or holds more than half of the issued share capital.

(c). 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 over the unexpired period 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 over their estimated useful lives on a straight line basis at the following annual rates:

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.

2. Principal Accounting Policies (Cont'd)

(d). 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.

Individual investments are reviewed regularly to determine whether they are impaired. When an investment is considered to be impaired the cumulative loss recorded in the revaluation reserve is taken to the profit and loss account.

Transfers from the investment revaluation reserve to the profit and loss account as a result of impairments are written back in the profit and loss account when the circumstances and events leading to the impairment cease to exist.

(e). Provisions for bad and doubtful debts

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

(f). Deferred taxation

Deferred taxation is accounted for at the current tax 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 asset is expected to be payable or receivable in the foreseeable future.

(g). 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. Exchange differences arising in these cases are dealt with in the profit and loss account.

(h). Derivatives financial instruments

Derivatives financial instruments include equity index futures, rolling forex contracts and foreign exchange contracts 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.

Notes to the Accounts

2. Principal Accounting Policies (Cont'd)

(h). Derivatives financial instruments (Cont'd)

Listed equity index futures and rolling forex contracts undertaken for dealing purposes are marked to market. These contracts are carried at their fair values in the balance sheet. Fair values are obtained from quoted market prices. Any difference between the quoted price and the contract cost is included in the profit and loss account.

Rolling forex and foreign exchange contracts 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 a derivative 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.

(i). 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 accounts" and the clients' monies deposited in a designated account maintained with the Hong Kong Futures Exchange Clearing Corporation Limited ("HKFECC") 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 year's presentation.

(j). Other assets

Other assets held are stated at cost less provision for any permanent diminution in values deemed necessary by the Directors.

(k). Operating leases

Leases where substantially all the rewards and risks 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.

(l). Borrowing costs

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

2. Principal Accounting Policies (Cont'd)

(m). Revenue recognition

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

Commission income from unit trust sales is recognised on an accruals basis.

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

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.

(n). 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, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

(o). 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.

Segment assets consist primarily of fixed assets, receivables and operating cash. Segment liabilities comprise operating liabilities. Capital expenditure comprises additions to 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.

(p). Retirement benefit costs

The Group's contributions to a defined contribution retirement scheme and a mandatory provident fund scheme are expensed as incurred. These contributions are reduced by past contributions forfeited by employees who leave the relevant scheme prior to full vesting of the contributions. The assets of the schemes are held separately from those of the Group in independently administered funds.

Notes to the Accounts

2. Principal Accounting Policies (Cont'd)

(q). 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.

(r). Dividends

In accordance with the revised SSAP 9, the Company 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.

(s). Provisions

In accordance with SSAP 28, 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.

3. Turnover, Revenue and Segment Information

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

- Tokyo Grain Exchange (TGE);
- Tokyo Commodities Exchange (TOCOM);
- the Hong Kong Futures Exchange Limited (Futures Exchange); and
- the Stock Exchange of Hong Kong (Stock Exchange).

The Group transacted commodity futures contracts through external exchange members of the TGE and the TOCOM on behalf of clients.

The Group also provides other related financial services including margin financing, securities underwriting, financial advisory services, corporate finance services, agency services for unit trust and insurance-linked products, and money lending. The Group, to a lesser extent, also trades index futures and rolling forex contracts on the Futures Exchange on its own account.

3. Turnover, Revenue and Segment Information (Cont'd)

The breakdown of the turnover and revenue is as follows:

	2002	2001
	HK\$'000	HK\$'000
TURNOVER		
Brokerage commission:		
– commodity futures contracts on TGE and TOCOM	142,025	97,614
– commodity and index futures contracts on other overseas exchanges	2,756	144
– index futures and rolling forex contracts on the Futures Exchange	2,032	2,543
– securities dealing	3,917	6,866
Advisory and asset management fees		
– corporate finance and advisory	844	1,712
– commission on sale of unit trust and insurance-linked products	1,952	1,931
Interest income:		
– securities margin financing	1,502	3,778
– loans and advances	99	303
– deposits with clearing house and brokers	2,332	3,802
– bank deposits and others	1,147	1,769
Proprietary trading income		
– index futures and rolling forex contracts on the Futures Exchange	2,689	2,983
	161,295	123,445
OTHER REVENUES		
Dividend income	431	913
Exchange gain	1,441	–
Management fee income	400	–
Other income	256	347
	2,528	1,260
Total turnover and revenues	163,823	124,705

Notes to the Accounts

3. Turnover, Revenue and Segment Information (Cont'd)

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, US futures and options and Hong Kong financial futures
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 related products and provision of personal financial consulting and planning services
Money lending	–	provision of personal financing services
Proprietary trading	–	proprietary trading in Hong Kong financial futures

3. Turnover, Revenue and Segment Information (Cont'd)

Business segments (Cont'd)

Segment information about these businesses is presented below:

	2002									
	Futures broking HK\$'000	Securities broking HK\$'000	Securities margin financing HK\$'000	Corporate finance HK\$'000	Asset		Money lending HK\$'000	Proprietary trading HK\$'000	Other operations HK\$'000	Consolidated HK\$'000
					management services HK\$'000					
TURNOVER	149,578	4,135	1,586	844	1,957	304	2,689	202	161,295	
RESULT	48,014	(5,283)	(2,421)	(2,287)	(2,641)	(33)	2,662	196	38,207	
Taxation									(7,882)	
Profit attributable to shareholders									30,325	
ASSETS										
Segment assets	148,038	14,688	21,366	17	1,111	1,023	2,007	30,716	218,966	
LIABILITIES										
Segment liabilities	104,803	1,414	2,005	–	371	40	–	5	108,638	
CAPITAL										
EXPENDITURE										
Additions of fixed assets	3,281	103	39	8	36	–	–	–	3,467	
Depreciation	637	646	248	11	43	–	–	–	1,585	

Notes to the Accounts

3. Turnover, Revenue and Segment Information (Cont'd)**Business segments (Cont'd)**

	2001							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	
TURNOVER	105,347	7,091	3,902	1,712	2,072	338	2,983	123,445
RESULT	33,910	(2,766)	(5,176)	651	(2,762)	93	2,933	26,883
Gain on disposal of non-trading investments								34,200
Profit before taxation								61,083
Taxation								(5,228)
Profit attributable to shareholders								55,855
ASSETS								
Segment assets	117,292	26,173	25,527	19	2,166	12,814	9,284	193,275
LIABILITIES								
Segment liabilities	98,316	15,566	8,279	–	903	10,799	–	133,863
CAPITAL EXPENDITURE								
Additions of fixed assets	–	1,452	799	22	55	–	–	2,328
Depreciation	–	329	182	3	122	–	–	636

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. Interest Expenses

	2002	2001
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	690	1,346
Other interest	–	336
Total interest expenses	690	1,682

5. Other Operating Expenses

	2002	2001
	HK\$'000	HK\$'000
Advertising and market development	2,342	2,187
Auditors' remuneration	990	455
Building management fee	1,155	596
Depreciation of owned fixed assets	1,585	636
Depreciation charges paid to a related company (Note 26(c))	1,852	1,743
Exchange loss	–	282
Legal & professional fees	734	290
Loss on disposal of fixed assets	–	308
Miss – trade expense	49	324
Recruitment	1,097	816
Repairs and maintenance	745	347
Telecommunication costs	3,227	3,570
Trading fees	101	316
Other administrative and miscellaneous expenses	7,324	5,284
	21,201	17,154

6. Taxation

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profit for the year.

There is no material unprovided deferred taxation for both the current and prior year.

7. Profit Attributable to Shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$6,196,000 (2001: HK\$Nil).

Notes to the Accounts

8. Dividends

	2002 HK\$'000	2001 HK\$'000
Interim declared and paid:		
HK3 cents per ordinary share (2001: Nil)	6,000	–
Dividend paid by a subsidiary of the Company (Note a)	10,000	64,000
Final proposed:		
HK4.5 cents per ordinary share (Note b)	9,000	–
	25,000	64,000

Note (a): During the year, a dividend of HK\$10,000,000 was paid by a subsidiary of the Company to its then shareholders prior to the Reorganisation and the listing of the Company's shares on the Stock Exchange.

Note (b): The final dividend of HK4.5 cents (2001: Nil) 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 2003.

9. Earnings Per Share

The calculation of the basic earnings per share for the year ended 30th June 2002 is based on the consolidated profit attributable to shareholders of HK\$30,325,000 (2001:HK\$55,855,000) divided by the weighted average number of 170,821,918 shares (2001:150,000,000 shares) deemed to be issued during the year.

In determining the weighted average number of shares in issue, the 1,779,900 shares issued before the capitalisation issue and the capitalization 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 2002 and 2001 were not disclosed as there were no dilutive potential ordinary shares.

10. Directors' and Employees' Emoluments

Directors' emoluments of the company

	2002 HK\$'000	2001 HK\$'000
Fees:		
Executive directors	–	–
Non-executive directors	–	–
	–	–
Other emoluments (Executive Directors):		
Salaries, bonus and other benefits	9,287	1,339
Contributions to retirement benefits scheme	156	162
	9,443	1,501

In addition to the above emoluments, certain directors were granted share options under the Company's share option scheme. The details of these benefits in kind are disclosed under the paragraph "Share Option Scheme" and "Directors' interests in shares" in the Directors' Report.

The emoluments of the Directors fell within the following bands:

	2002 Number of directors	2001 Number of directors
Nil to HK\$1,000,000	2	2
HK\$2,000,001 to HK\$2,500,000	1	–
HK\$2,500,001 to HK\$3,000,000	1	–
HK\$4,500,001 to HK\$5,000,000	1	–

Notes to the Accounts

10. Directors' and Employees' Emoluments (Cont'd)

Employees' emoluments

During the year, the five highest paid individuals included three directors (2001: two directors), details of whose emoluments are set out above. The emoluments of the remaining highest paid individual were as follows:

	2002 HK\$'000	2001 HK\$'000
Salaries, bonus and other benefits	4,718	2,849
Contributions to retirement benefits scheme	123	267
	<u>4,841</u>	<u>3,116</u>

The emoluments fell within the following bands:

	2002 Number of individuals	2001 Number of individuals
Nil to HK\$1,000,000	–	4
HK\$2,000,001 to HK\$2,500,000	1	–
HK\$2,500,001 to HK\$3,000,000	1	–

11. Retirement Benefit Costs

The Group contributed to a defined contribution provident scheme (the "ORSO Scheme"). Under the ORSO Scheme, the employees are required to contribute five per cent of their standard monthly salaries, while the employer's contributions are calculated at a range of five to seven per cent of the employees' standard monthly salaries. The employees who joined the Company before 1st December 2000, 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' service. Forfeited contributions by the qualified employees who left the scheme prior to vesting fully in such contributions are used to reduce the Group's contribution.

In addition to the ORSO Scheme, effective from 1st December 2000, the Group has participated in a Mandatory Provident Fund Scheme (the "MPF Scheme") established pursuant to the Mandatory Provident Fund Schemes Ordinance. Accrued benefits of the employees in the ORSO Scheme who had selected to be transferred to the MPF Scheme were kept in the ORSO Scheme until their termination of employment. The ORSO Scheme is also subject to the execution of the Mandatory Provident Fund Schemes Ordinance for the employees who joined after 1st December 2000.

II. Retirement Benefit Costs (Cont'd)

Contributions to the MPF Scheme is made in accordance with the statutory requirements which is calculated at five per cent of the relevant income of each employee up to a maximum amount of HK\$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:

	2002 HK\$'000	2001 HK\$'000
Gross employer's contributions	1,850	1,541
Less: Forfeited contributions utilised to offset employer's contribution for the year	304	278
Net employer's contributions charged to profit and loss account	1,546	1,263

Notes to the Accounts

12. Fixed Assets

	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Office equipment HK\$'000	Computer equipment HK\$'000	Total HK\$'000
COST					
At 1st July 2001	1,195	330	514	1,468	3,507
Additions	1,683	196	794	794	3,467
Disposals	–	(14)	(40)	(227)	(281)
Transfers	–	(1)	1	–	–
At 30th June 2002	2,878	511	1,269	2,035	6,693
ACCUMULATED DEPRECIATION					
At 1st July 2001	270	103	167	586	1,126
Charge for the year	679	83	199	624	1,585
Disposals	–	(14)	(40)	(227)	(281)
Transfers	–	(8)	8	–	–
At 30th June 2002	949	164	334	983	2,430
NET BOOK VALUE					
At 30th June 2002	1,929	347	935	1,052	4,263
At 30th June 2001	925	227	347	882	2,381

13. Other Assets

	2002	2001
	HK\$'000	HK\$'000
Deposit with the Compensation Fund of the Futures Exchange	100	100
Reserve fund deposits with the Futures Exchange	1,500	1,500
Statutory deposits with the Stock Exchange	100	100
Statutory deposits with the Securities and Futures Commission	50	50
Contributions to the Central Clearing and Settlement System		
Guarantee Fund	50	50
Admission fees paid to the Hong Kong Securities Clearing Company Limited	50	50
	1,850	1,850

14. Non-trading Investments

	2002	2001
	HK\$'000	HK\$'000
Listed equities in Hong Kong at fair value	16,782	18,153

Listed securities of aggregate carrying amount of HK\$10,280,000 (2001: HK\$11,120,000) have been pledged to a bank for the banking facilities.

15. Investments in Subsidiaries

	Company	
	2002	2001
	HK\$'000	HK\$'000
Unlisted shares, at cost	65,237	–
Amounts due from subsidiaries	11,000	–
Amounts due to subsidiaries	(4,557)	–
	71,680	–

Notes to the Accounts

15. Investments in Subsidiaries (Cont'd)

The following list contains the particulars of the subsidiaries of the Company as at 30th June 2002. 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 (previously known as Tanrich Financial Group (BVI) Limited)	British Virgin Islands/ Hong Kong	Investment holding	US\$10,000	100%	–
Tanrich Futures Limited ("TFL")	Hong Kong/ Hong Kong	Futures broking	HK\$10,001,000 (divided into 1,000 ordinary shares and 10,000,000 non-voting deferred shares of HK\$1 each)	–	100%
Tanrich Securities Company Limited ("TSCL")	Hong Kong/ Hong Kong	Securities broking, securities margin financing and corporate finance	HK\$25,001,000 (divided into 1,000 ordinary shares and 25,000,000 non-voting deferred shares of HK\$1 each)	–	100%
Tanrich Asset Management Limited ("TAML")	Hong Kong/ Hong Kong	Distribution of unit trusts, mutual funds, insurance related products and provision of personal financial consulting and planning services	HK\$7,001,000 (divided into 1,001,000 ordinary shares and 6,000,000 non-voting deferred shares of HK\$1 each)	–	100%
Tanrich Finance Limited ("FIN")	Hong Kong/ Hong Kong	Provision of personal financing service	HK\$11,000 (divided into 1,000 ordinary shares and 10,000 non-voting deferred shares of HK\$1 each)	–	100%

15. Investments in Subsidiaries (Cont'd)

In accordance with Articles of Association of each of Tanrich Futures Limited, Tanrich Securities Company Limited, Tanrich Asset Management Limited and Tanrich Finance Limited, holders of non-voting deferred shares are entitled to a fixed non-cumulative dividend at a rate of Hong Kong one cent (HK\$0.01) per non-voting deferred share when the profit exceeds HK\$100,000 million in any financial year.

16. Loans and Advances

	2002 HK\$'000	2001 HK\$'000
Loans and advances		
– unsecured	244	812
– secured	420	581
	664	1,393
Current portion of loans and advances	(384)	(1,377)
	280	16

17. Accounts Receivable

	2002 HK\$'000	2001 HK\$'000
Accounts receivable arising from the ordinary course of business		
of broking in securities, index futures, rolling forex and commodity futures contracts:		
– securities cash clients	906	2,434
– securities clearing house, brokers and dealers	869	5,475
– futures clearing house, brokers and dealers		
– HKFECC	1,196	8,476
– brokers for commodity futures contracts on TGE and TOCOM	71,470	87,055
– brokers for commodity futures contracts on other overseas exchanges	8,315	1,222
Accounts receivable from securities margin clients	20,143	18,759
Accounts receivable arising from provision of:		
– unit trust and insurance-linked products agency services	72	244
– subscription for securities	–	2,259
	102,971	125,924

Notes to the Accounts

17. Accounts Receivable (Cont'd)

The accounts receivable from the HKFECC excludes a deposit of HK\$412,000 (2001: HK\$13,447,000) relating to the clients' monies.

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 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.

CCCWG is responsible for monitoring the margin call on a daily basis. It decides the actions to be taken for the clients, should the 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 futures and commodity futures contracts transactions represents the margin deposit 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 is secured by clients' pledged securities, repayable on demand and bear interest at commercial rates. As at 30th June 2002 and 30th June 2001, included in the accounts receivables from securities margin clients were overdue margin calls HK\$3,651,000 and HK\$4,652,000 respectively.

17. Accounts Receivable (Cont'd)

Settlement terms (Cont'd)

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

	2002	2001
	HK\$'000	HK\$'000
Within 30 days	–	928
31 – 90 days	–	27
91 – 180 days	–	3,605
181 – 270 days	–	91
271 – 360 days	3,651	1
	<u>3,651</u>	<u>4,652</u>

Provisions of HK\$3.5 million were made for these overdue margin calls as at 30th June 2002 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 30th June 2002 and 30th June 2001, included in the accounts receivables from securities cash clients were receivables not settled on settlement date of HK\$58,000 and HK\$491,000 respectively. All these balances were subsequently settled.

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

	2002	2001
	HK\$'000	HK\$'000
Within 30 days	51	484
31 – 90 days	–	–
91 – 180 days	–	–
Over 180 days	7	7
	<u>58</u>	<u>491</u>

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.

Notes to the Accounts

18. Deposits, Prepayments and Other Receivables

	2002 HK\$'000	2001 HK\$'000
Prepayments	1,871	166
Other receivables	14,474	13,073
Rental and other deposits	1,354	1,086
	<u>17,699</u>	<u>14,325</u>

The comparative figures have been restated to take into account of the effect of adopting the Group's new accounting policy as described in note (1)(i).

19. Cash and Bank Balances

The subsidiaries of the Group maintain trust accounts with authorised institutions as a result of its normal business transactions. At 30th June 2002, trust accounts not otherwise dealt with in these accounts amounted to HK\$40,145,000 (2001: HK\$40,465,000).

A subsidiary of the Company pledges cash as collateral to an authorised institution from time to time for foreign exchange deferred trading and has pledged HK\$6,045,000 as at 30th June 2002 (2001: Nil).

20. Accounts Payable

	2002 HK\$'000	2001 HK\$'000
Accounts payable arising from the ordinary course of business of broking in securities, index futures, rolling forex and commodity futures contracts:		
– securities cash clients	696	1,954
– securities margin clients	1,730	788
– securities clearing house, brokers and dealers	–	2,477
– futures clients	78,974	87,469
Accounts payable arising from provision of:		
– unit trust and insurance-linked products agency services	12	5
	<u>81,412</u>	<u>92,693</u>

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

20. Accounts Payable (Cont'd)

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

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

The accounts payable are stated net of clients' segregated assets of HK\$26,171,000 (2001: HK\$42,439,000).

21. Bank Borrowings

	2002	2001
	HK\$'000	HK\$'000
Bank loans and overdraft – secured		
Amounts repayable on demand	222	16,847
Amounts repayable within 3 months	–	11,280
	<u>222</u>	<u>28,127</u>

Bank borrowings of HK\$222,000 (2001: HK\$28,127,000) were secured by clients' pledged securities, certain non-trading investments of the Group and corporate guarantees issued by the Company and its subsidiaries.

22. Share Capital

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

Notes to the Accounts

22. Share Capital (Cont'd)

The changes in the Company's share capital during the period from date of incorporation to 30th June 2002 are as follows:

- (i) The Company was incorporated in Bermuda as an exempted company with limited liabilities on 3rd September 1998 with authorised share capital of 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.
- (ii) 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;
 - 779,900 ordinary shares of HK\$0.10 each at par were issued and credited as fully paid, and the existing 1,000,000 shares issued nil-paid on 4th September 1998 were credited as fully paid at par, in exchange for the acquisition by the Company of the entire issued share capital of Tanrich Financial (Management) Limited (previously known as Tanrich Financial Group (BVI) Limited).
- (iii) Pursuant to the written resolution passed on 7th January 2002, conditional on the share premium account of the Company being credited as a result of the public offer, 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 the close of business on 7th January 2002 by way of capitalisation of a sum of HK\$14,822,010 standing to the credit of the share premium account.
- (iv) 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.
- (v) The share capital in the consolidated balance sheet as at 30th June 2001 represents the issued share capital of the Company, arising on incorporation and as a result of the share swap transaction to effect the Reorganisation described above, which is deemed to have been issued throughout the accounting periods presented in accordance with the merger basis of accounting.
- (vi) On 7th January 2002, the shareholders of the Company approved and adopted as share option scheme ("the Scheme"). On 22nd February 2002, options were granted to the Directors, employees and bona fide consultants of the Company to subscribe for 20 million shares of HK\$0.10 each in the Company at HK\$0.72 per share exercisable at any time from 22nd February 2003 to 7th January 2012.

23. Reserves

The Group

	Investment revaluation reserve HK\$'000	Share premium HK\$'000	Capital reserve (Note (a)) HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1st July 2000	36,896	–	39,832	9,573	86,301
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)
At 30th June 2001	17,974	–	39,832	1,428	59,234
At 1st July 2001	17,974	–	39,832	1,428	59,234
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	–	–	–	30,325	30,325
Dividend	–	–	–	(16,000)	(16,000)
At 30th June 2002	16,602	17,137	40,836	15,753	90,328
Representing:					
Retained earnings at 30th June 2002				15,753	
2002 final dividend proposed				(9,000)	
At 30th June 2002				6,753	

Notes to the Accounts

23. Reserves (Cont'd)**The Company**

	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
2002 interim dividend	–	–	(6,000)	(6,000)
	<u>17,137</u>	<u>65,059</u>	<u>196</u>	<u>82,392</u>
At 30th June 2002				
Representing:				
Contributed surplus/ Retained earnings at 30th June 2002		65,059	196	
2002 final dividend proposed		<u>(9,000)</u>	<u>–</u>	
At 30th June 2002		<u>56,059</u>	<u>196</u>	

(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.

(b) Contributed surplus

Contributed surplus represents the difference between the aggregate net asset value of subsidiaries acquired as a result of the Reorganisation discussed in note 1 to the accounts 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 account 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.

23. Reserves (Cont'd)

(c) Distributable reserve

As at 30th June 2002, in the opinion of the Directors of the Company, the reserves of the Company available for distribution to shareholders amounted to HK\$65,255,000 subject to the restriction stated above.

The Company was incorporated on 3rd September 1998 and has not carried out any business since the date of its incorporation save for the transaction related to the Reorganisation. Accordingly, there was no reserve for distribution to shareholders as at 30th June 2001.

24. Notes to the Consolidated Cash Flow Statement

(a) Reconciliation of profit before taxation to net cash inflow from operating activities

	2002	2001
	HK\$'000	HK\$'000
Profit before taxation	38,207	61,083
Interest income	(3,479)	(5,571)
Interest expenses	690	1,682
Dividends received	(431)	(913)
Depreciation	1,585	636
Gain on disposal of non-trading investments	–	(34,200)
Loss on disposal of fixed assets	–	308
(Decrease)/increase in provision for bad and doubtful debts	(33)	8,706
Decrease in other assets	–	50
Decrease in loans and advances	729	10,648
Decrease/(increase) in accounts receivable	22,986	(87,328)
Increase in deposits, prepayments and other receivables	(3,343)	(2,802)
Decrease/(increase) in amounts due from related company	21,879	(15,777)
(Decrease)/increase in accounts payable	(11,281)	66,699
Increase in other payables and accrued charges	12,273	1,035
Decrease in amounts due to related company	(2,090)	(967)
Net cash inflow from operating activities	77,692	3,289

Notes to the Accounts

24. Notes to the Consolidated Cash Flow Statement (Cont'd)**(b) Analysis of changes in financing**

	Share capital (including share premium)	
	2002 HK\$'000	2001 HK\$'000
Balance at 1st July	178	178
Issue of ordinary shares	50,000	–
Share issue expenses	(13,041)	–
Balance at 30th June	37,137	178

The Group raised HK\$36,959,000 (net of related expenses) from placing and public offer of shares upon listing on the Main Board of the Stock Exchange.

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

As at 30th June 2002, a subsidiary of the Company had future aggregate minimum lease payments under non-cancellable operating lease as follows:

	2002 HK\$'000	2001 HK\$'000
Land and buildings		
Not later than one year	3,414	–
Later than one year and not later than five years	5,176	–
	8,590	–

In addition to the above non-cancellable tenancy agreement, the subsidiaries of the Company entered into tenancy agreements with a related company, TREGI. Under these tenancy agreements, one month notice is required to be given by the subsidiaries of the Company in case of termination of the leases. The total amount of monthly rental and management fees is HK\$478,000.

(ii) Other commitments

The Company has issued unlimited corporate guarantees to banks in respect of banking facilities granted to its subsidiaries.

25. Commitments and Contingent Liabilities (Cont'd)

(iii) Derivatives 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 derivatives financial instruments outstanding at the year end:

	Contract/ notional amount HK\$'000	Fair value included in Accounts Payable HK\$'000
As at 30th June 2002		
Equity Index Futures contracts – Trading	1,061	1
Foreign Exchange contracts – Hedging	120,900	7,588
As at 30th June 2001		
Rolling Forex contracts – Hedging	119,550	–

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 Company's exposure to the price risk. Since all contracts are collateralised by cash and changes in the futures contract value are settled daily with the HKFECC and the authorized institution, the credit risk is negligible.

The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market prices, interest rates or foreign exchange rates relative to their terms. The extent to which instruments are favourable or unfavourable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

Notes to the Accounts

26. Related Party Transactions

During the year, the Group had the following transactions with a related company, THKHL and its subsidiaries, Tarnich Financial Group Limited ("TFGL"), TREGL and 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.

	Note	2002 HK\$'000	2001 HK\$'000
Operating leases on land and buildings	(a)	7,461	8,937
Overhead recharged	(b)	1,183	5,207
Depreciation	(c)	1,852	1,743
Salaries and provident fund recharged	(d)	4,983	12,911
Management fee income	(d)	(400)	(19)
Commission income	(e)	(808)	(1,244)
Interest income	(f)	(356)	(642)
Interest expenses	(f)	–	336
Fund management income		–	(7)

- (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.
- (b). 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.
- (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 is calculated on the direct cost method.
- (d). 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. Effective on 1st February 2002, a subsidiary of the Company had absorbed certain cost for such services and recharged to THKHL on fixed amount.
- (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 THKHL and its subsidiary, TFGL from/to the subsidiaries of the Company where interest was charged at commercial rates. These arrangements were terminated upon the listing of the shares of the Company.