



# Management Discussion and Analysis



Close	Change	% Chg.	Vol	Nov
17844.54	355.42	-1.95%	7960	7/b
<b>Most Active Shares</b>		<b>Volume in Shares</b>		
JAL			11,482,000	
MITSUBISHI ELEC			8,825,000	
TOSHIBA CORP			8,815,000	

## Market Snapshot



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## BUSINESS REVIEW OVERVIEW

The Hong Kong economy continued to improve after the SARS outbreak. Boosted by the Individual Travel Scheme and CEPA, unemployment rate gradually eased and the Hong Kong stock market also rebounded sharply. The Hang Seng Index reached as high as 13,928 in February 2004 and average daily trading volume on The Stock Exchange of Hong Kong Limited (the "SEHK") was HK\$15.1 billion for the year under review. During the year, the Group actively grasped the opportunities brought forth by economic recovery and so attained satisfactory performance in our proprietary trading, futures broking, securities broking and margin financing businesses which contributed to the Group's encouraging results.

China is embarking on macroeconomic control measures in the first half of 2004 to adjust its economy. Such macroeconomic control measures slow down the development of the Hong Kong stock market since March 2004. However, this healthy process of fine-tuning China's economy is fundamental to sustaining its long-term growth momentum, which in turn will benefit Hong Kong's future development.

TGE and Tokyo Commodity Exchange ("TOCOM") have been operating in Japan since 1952 and 1984 respectively and together are recognised as one of the 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 on TGE. However, due to less clients trading in the Japanese commodity futures, turnover of TGE futures in Hong Kong for the financial year ended 30th June 2004 dropped to 211,142 contracts as compared with 237,781 contracts for the corresponding period in 2003. Despite the decrease in the number of contracts, Tanrich maintained its leading position with 76.6% of market share of TGE futures in Hong Kong in terms of trading volume for the year ended 30th June 2004.

## OPERATION REVIEW

For the year ended 30th June 2004, the Group recorded an increase in turnover of 4.5%, from HK\$126.7 million to HK\$132.4 million. Profit from operating activities increased significantly by 124.8% to HK\$29.0 million from HK\$12.9 million whilst profit attributable to shareholders increased by 157.8% to HK\$26.3 million as compared with HK\$10.2 million of the same period in 2003.

Shareholders' fund increased by 27.6% to HK\$135.8 million from HK\$106.4 million of the corresponding period in 2003. For the year ended 30th June 2004, basic earnings per share was HK13.1 cents. Detailed below are descriptions of the Group's main business activities in the year under review.

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## FUTURES

There were fewer investors trading in the Japanese commodity futures especially the underlying commodities of corn, raw sugar and red beans. The Group's turnover of TGE futures decreased to 161,659 contracts as compared with 190,898 contracts for the same period in 2003, whilst turnover of its TOCOM futures increased slightly to 31,599 contracts as compared with 30,470 contracts for the same period in 2003. Group's turnover in US commodity and currency futures also decreased to 55,555 contracts as compared with 75,233 contracts for the same period in 2003.

As a result, the commission income and operating profit derived from broking in futures contracts for the year only amounted to HK\$99.7 million and HK\$15.6 million respectively (2003: HK\$119.3 million and HK\$25.2 million respectively), representing a drop of 16.4% and 38.1% respectively over the previous year. However, the Group's futures business still contributed to 75.3% (2003: 94.2%) of its total turnover for the financial year under review.

Despite the challenging operating environment, the Group managed to maintain its unrivaled market leadership position in Hong Kong of trading on the Japanese commodity futures markets. The Group has launched a re-engineering program to review the remuneration and rewarding system for account executives in order to motivate them and eventually provide excellent financial services to our clients.

## SECURITIES BROKING AND MARGIN FINANCING

The market recovery stimulated investors' investment sentiment and attracted an influx of funding to the Hong Kong stock market during the year. Hang Seng Index recorded the lowest of 9,602 in July 2003 and the highest of 13,928 in February 2004. In addition, the average monthly turnover of the Stock Exchange increased to HK\$316.8 billion as compared with HK\$133.5 billion for the corresponding period in 2003.

Our securities broking and margin financing business shared some rewarding results from the improving market sentiment and effective cost control measures. Its total turnover for the financial year ended 30th June 2004 increased remarkably by 115.3% to HK\$12.7 million (2003: HK\$5.9 million) and achieved an operating profit of approximately HK\$2.3 million, which is a sharp reversal of the operating loss of HK\$3.4 million in the same period of the previous year. For the financial year under review, securities broking and margin financing in aggregate contributed to 9.6% and 7.9% to the Group's total turnover and operating profit respectively.

Following last year's strategy, the Group will focus its business on institutional, corporate and high value clients. The Group always aims to maintain a prudent and conservative margin financing policy and a strict control on margin lending in an effort to control the risk level to better protect its customers.

## MONEY LENDING

The Group is seeking profit generating opportunities by identifying credit worthy corporate clients with a view to provide money lending services. The Group always aims to maintain prudent and conservative money lending policies and strict credit control systems in which the borrower's credit worthiness and background, as well as the collateral's quality and value, would be well assessed. The turnover of the Group's money lending business for the financial year ended 30th June 2004 increased remarkably from HK\$63,000 to HK\$1.8 million and it also achieved an operating profit of approximately HK\$1.8 million, a turn around from an operating loss of HK\$60,000 in the same period of the previous year.

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## WEALTH MANAGEMENT

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 1.8% of the total turnover, reaching HK\$2.4 million.

## CORPORATE FINANCE

The Group's corporate finance business has been offering financial services including financial advisory, fund raising, underwriting and sub-underwriting as well as placement activities. Turnover for the corporate finance business increased to HK\$735,000 for the year under review as compared with HK\$212,000 of the corresponding period in 2003, which representing a growth of 3.5 times.

## 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, effort and resources in minimising the Group's risk exposure and maximising returns to customers and shareholders.

## RISK CONTROL COMMITTEE

The committee, comprising members of the Board of Directors, the senior manager of finance and accounting division of the Group, the senior manager of legal and compliance division of the Group has 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 members of the Board of Directors, the senior manager of finance and accounting division of the Group and the director of TSCL, the main task of the credit control committee is to administer the credit control policies and procedures formulated by the risk control committee.

## LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

The Group's policy is to maintain a healthy and liquid financial position. The subsidiaries licensed by the Securities and Futures Commission (the "SFC") fully complied with the financial resources rules promulgated by the SFC. As at 30th June 2004, the Group had total cash and bank balances of HK\$53.6 million (2003: HK\$62.8 million), while net current asset amounted to HK\$105.8 million (2003: HK\$76.4 million). The strong liquidity of the Group is manifested in the current ratio, as a ratio of current assets to current liabilities, of 2.4 times which showed improvement over last year's 2.0 times.

As at 30th June 2004 and 30th June 2003, the Group had no bank borrowings which resulted in zero gearing ratio. The gearing ratio represented the ratio of total borrowings to the total equity of the Group.

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

As at 30th June 2004, the Group had aggregate banking facilities of HK\$106.0 million, composed of HK\$85.0 million, the draw down of which is subject to the pledged value of marketable securities, and HK\$21.0 million general banking facilities, as compared with HK\$101.0 million in year 2003.

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

## SIGNIFICANT INVESTMENTS

During the financial year, the Group disposed of 1,089,000 listed securities of BOC Hong Kong (Holdings) Limited at average market price of HK\$8.7 per share to realise a gain on disposal of non-trading investment of HK\$145,000.

As at 30th June 2004, the Group still had 1,306,000 listed securities of Hong Kong Exchanges and Clearing Limited with fair value amounted to HK\$20.9 million (2003: HK\$23.2 million). An unrealised gain of HK\$7.2 million was recorded in the Group's investment revaluation reserve during the financial year ended 30th June 2004 as a result of rebound in the Hong Kong stock market, compared with last year's unrealised loss of HK\$3.0 million.

## MATERIAL INVESTMENTS

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

## CHARGE ON GROUP ASSETS

Marketable securities with an aggregate value of approximately HK\$8.0 million (2003: HK\$14.6 million) were pledged as collateral for banking facilities. These marketable securities were beneficially owned by a subsidiary of the Company.

The subsidiaries of the Company pledge bank deposits as collateral to authorised institutions from time to time for foreign exchange deferred trading and banking facilities. As at 30th June 2004, they had pledged bank deposits of HK\$1,560,000 (2003: HK\$2,534,000) and HK\$1,763,000 (2003: HK\$1,763,000) to authorised institutions for foreign exchange deferred trading and banking facilities respectively.

## CONTINGENT LIABILITIES

As at 30th June 2004, the Company has undertaken to guarantee the banking facilities of HK\$105.5 million granted to two of its subsidiaries. The banking facilities were applied in their normal courses of business activities.

A subsidiary of the Company has received a claim for compensation in the region from HK\$1.5 million to HK\$2.5 million, inclusive of interest and legal costs 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 accounts.



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## FOREIGN EXCHANGE AND CURRENCY RISKS

The Group has exposure to foreign exchange fluctuation as a result of placing margin deposits 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.

As at 30th June 2004, the Group had a total margin deposit placed with the two designated futures commission merchants of 433.3 million Japanese Yen and a bank deposit of 100.4 million Japanese Yen, total Japanese Yen being equivalent to HK\$38.4 million. This amount was hedged with USD/JPY foreign exchange deferred trading equivalent to an aggregate amount of US\$4.0 million, which representing 81.2% of the Group's net foreign exchange exposure (2003: 87.8%).

## STAFF

As at 30th June 2004, the Group had a total of 175 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\$53.4 million for the year (2003: HK\$55.1 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

Tanrich aims to achieve the highest level of customer satisfaction as an one-stop provider of financial services for individuals and companies to create, accumulate and preserve wealth.

Looking ahead, the future is teeming with abundant opportunities brought forth by the implementation of CEPA and Hong Kong's increasing business integration with the Pearl River Delta region and global financial communities. With the strength of our market expertise and experience, we are confident of our ability to capitalise on these opportunities to expand our customer base and extend the scope and depth of our services and capabilities. Along with this target, we are going to set up representative offices in Beijing and Guangzhou.

With an improving economic and business environment, we expect the equity-raising, corporate finance and trading activities will be more active in the Hong Kong financial market. Tanrich is dedicated to capture this trend to further expand its businesses, especially in the securities brokerage, securities margin financing, corporate finance and asset management businesses. We will continue to grow and leverage our niche and our strength to provide more value added financial services and solutions to our clients.

To keep pace with the advancements in information technology, a more powerful and advanced futures trading system will be launched in the near future. We believe that our competitiveness will be strengthened and the overall efficiency and customer service standards will also be enhanced.