

# Directors' Report

The directors submit their report together with the audited accounts of the Company and its subsidiaries for the year ended 30th June 2004.

## PRINCIPAL ACTIVITIES

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

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

## RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 29.

The directors have declared an interim dividend of HK1 cent per ordinary share, totalling HK\$2 million, which was paid on 7th May 2004.

The directors recommend the payment of a final dividend of HK1 cent per share for the financial year ended 30th June 2004 to the shareholders whose names appear on the register of members at the close of business on Tuesday, 12th October 2004, which together with the interim dividend amounts to a total of about HK\$4 million.

The register of members of the Company will be closed from Thursday, 7th October 2004 to Tuesday, 12th October 2004, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on Wednesday, 6th October 2004. Dividend warrants will be despatched to shareholders on or about Friday, 29th October 2004.

## RESERVES

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

As at 30th June 2004, the reserves of the Company available for distribution to shareholders amounted to HK\$76,057,000 (2003: HK\$75,788,000).

## DONATIONS

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

## FIXED ASSETS

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

# Directors' Report

## SHARE CAPITAL

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

## FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 71 to 72.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

## SHARE OPTION SCHEMES

### Pre-Listing Share Option Scheme ("Pre-Listing Scheme")

The Pre-Listing Scheme was adopted on 7th January 2002. The summary of the Pre-Listing Scheme is as below:

1. The purpose of the Pre-Listing Scheme is to enable the Company to grant share options to eligible persons as an incentive or reward for their contributions to the Group.
2. The participants of the Pre-Listing Scheme include any employee, executive or non-executive director or bona fide consultant of the Company or any of its subsidiaries.
3. The total number of shares available for issue is 15,000,000 which represents 7.5% of the existing issued share capital of the Company as at the date of this report.
4. The total number of shares issued and to be issued upon exercise of the options granted and to be granted to each participant in any 12-month period up to the date of the latest grant shall not exceed 1% of the issued share capital of the Company in issue, unless shareholders' approval has been obtained in general meeting.
5. Share options may be exercised in accordance with the terms of the Pre-Listing Scheme at any time during a period commencing one year from the date of grant of the option and expiring on the earlier of the last day of (i) a ten year period from the date of grant of the option or (ii) ten years from the adoption date.
6. A non-refundable consideration of HK\$1 for the grant of each lot of options is required to be paid by each grantee upon acceptance of the option.
7. The subscription price for the shares shall be determined by the Board of Directors, but shall not be less than the higher of (i) the closing price of each share as stated in the SEHK daily quotation sheet on the date of grant of the option; and (ii) the average closing price of the shares as stated in the SEHK daily quotation sheets for the five business days immediately preceding the date of grant of the option.

# Directors' Report

## SHARE OPTION SCHEMES *(Continued)*

### Pre-Listing Scheme *(Continued)*

8. The Pre-Listing Scheme will expire on the last day of ten years from the adoption date.

Details of the share options outstanding as at 30th June 2004 which have been granted under the Pre-Listing Scheme are as follows:

	Number of share options					Sub- scription price HK\$	Grant date	Exercisable from	Exercisable until
	Held at 1st July 2003	Granted during the year	Exercised during the year	Lapsed during the year	Held at 30th June 2004				
<i>Directors:</i>									
Yip Man Fan	2,000,000	–	–	–	2,000,000	0.72	22nd February 2002	22nd February 2003	7th January 2012
Kwok Kam Hoi	2,000,000	–	–	–	2,000,000	0.72	22nd February 2002	22nd February 2003	7th January 2012
Toru Tsunoyama	1,950,000	–	–	–	1,950,000	0.72	22nd February 2002	22nd February 2003	7th January 2012
Sin Wai Chiu, Joseph	600,000	–	–	600,000	–	0.72	22nd February 2002	22nd February 2003	7th January 2012
Continuous contract employees	11,370,000	–	–	2,570,000	8,800,000	0.72	22nd February 2002	22nd February 2003	7th January 2012
Bona fide consultants of the Group	360,000	–	–	70,000	290,000	0.72	22nd February 2002	22nd February 2003	7th January 2012

#### Notes:

1. The closing price immediately before the date on which the option was granted was HK\$0.65.
2. Share options had lapsed in accordance with the terms and conditions of the Pre-Listing Scheme following the resignation of a director and employees and expiration of consultancy agreements.

# Directors' Report

## SHARE OPTION SCHEMES *(Continued)*

### Post-Listing Share Option Scheme ("Post-Listing Scheme")

The Post-Listing Scheme was adopted on 30th January 2004. The summary of the Post-Listing Scheme is as below:

1. The purposes of the Post-Listing Scheme are to attract and retain the best available personnel, to provide additional incentive to employees, directors, consultants, business associates and advisors and to promote the success of the Group.
2. The participants of the Post-Listing Scheme include any employee, executive or non-executive director, consultant, business associate and advisor of the Company or any of its subsidiaries.
3. The total number of shares available for issue is 18,568,000 which represents 9.3% of the existing issued share capital of the Company as at the date of this report.
4. The total number of shares issued and to be issued upon exercise of the options granted and to be granted to each participant in any 12-month period up to the date of the latest grant shall not exceed 1% of the issued share capital of the Company in issue, unless shareholders' approval has been obtained in general meeting.
5. Share options may be exercised in accordance with the terms of the Post-Listing Scheme at any time during a period not to be less than one year and not to exceed ten years from the date of grant of the relevant option.
6. No consideration for the grant of an option is required to be paid upon acceptance of the option.
7. The subscription price for the shares shall be determined by the Board of Directors, but shall not be less than the highest of (i) the closing price of each share as stated in the SEHK daily quotation sheet on the date of grant of the option; (ii) the average closing price of the shares as stated in the SEHK daily quotation sheets for the five business days immediately preceding the date of grant of the option; and (iii) the nominal value of the shares.
8. The Post-Listing Scheme will expire on 29th January 2014.

# Directors' Report

## SHARE OPTION SCHEMES *(Continued)*

### Post-Listing Scheme *(Continued)*

	Number of share options					Sub- scription price HK\$	Grant date	Exercisable from	Exercisable until
	Held at 1st July 2003	Granted during the year	Exercised during the year	Lapsed during the year	Held at 30th June 2004				
<i>Director:</i>									
Kwok Kam Hoi	-	2,000,000	-	-	2,000,000	0.67	27th April 2004	27th April 2005	26th April 2014
Continuous contract employees	-	13,038,000	-	-	13,038,000	0.67	27th April 2004	27th April 2005	26th April 2014
Consultants/ Advisors	-	3,576,000	-	-	3,576,000	0.67	27th April 2004	27th April 2005	26th April 2014

*Note:*

- The closing price immediately before the date on which the option was granted was HK\$0.67.

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

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

# Directors' Report

## DIRECTORS

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

### **Executive Directors**

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

### **Independent Non-Executive Directors**

Mr. LAM, Andy Siu Wing, JP  
Mr. MA Chiu Cheung, Andrew

In accordance with bye-law 87 of the Company, Mr. LAM, Andy Siu Wing, JP retires by rotation and, being eligible, offer himself for re-election.

## DIRECTORS' EMOLUMENTS

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

## DIRECTORS' SERVICE CONTRACTS

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

1. Each of Mr. YIP Man Fan and Mr. KWOK Kam Hoi has entered into a service agreement with the Company for a term of two years commencing from 30th January 2004 and shall continue every two years thereafter unless and until terminated by either the Company or the director giving to the other not less than three month's notice in writing to determine the same.
2. Mr. Toru TSUNOYAMA has entered into a service agreement with the Company for a term of two years commencing from 1st August 2003 and shall continue every two years thereafter unless and until terminated by either the Company or the director giving to the other not less than three month's notice in writing to determine the same.

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

# Directors' Report

## BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of directors and senior management are set out on pages 25 to 27.

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed under "Connected Transactions" on pages 21 to 22, there were no contracts of significance subsisting during or at the end of the financial year in which a director of the Company is or was materially interested, either directly or indirectly.

Furthermore, there were no contracts of significance between the Company, or one of its subsidiaries, and a controlling shareholder or any of its subsidiaries.

## MANAGEMENT CONTRACTS

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

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30th June 2004, the interests and short positions of the directors and chief executive of the Company or their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were notified to the Company and the SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) and required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise required to be notified to the Company and the SEHK pursuant to the Model Code for Securities Transactions by directors of Listed Companies contained in the Listing Rules, were as follows:

### Interest in long positions of ordinary shares of the Company

	Number of ordinary shares				Total
	Personal interests	Family interests	Corporate interests	Other interests	
Yip Man Fan	–	7,500,000 <i>(Note 1)</i>	–	120,000,000 <i>(Note 2)</i>	127,500,000
Toru Tsunoyama	22,500,000	–	–	–	22,500,000

Notes:

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

# Directors' Report

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION *(Continued)*

The interests of the directors in the share options of the Company are set out in "Share Option Schemes" on pages 14 to 17 and note 24 to the accounts.

Save as disclosed above, as at 30th June 2004, none of the directors and chief executive of the Company or their associates had any personal, family, corporate or other interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations, as defined in the SFO.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed in the "Share Option Schemes" disclosures on pages 14 to 17 and in note 24 to the accounts, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate granted to any directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse or children under 18 years of age to acquire such rights in any other body corporate.

## OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30th June 2004, the persons, (other than directors and chief executive of the Company whose interests or short positions have been disclosed above) who have interests or short positions in the shares and underlying shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Name of shareholders	Note	Number of ordinary shares	Percentage of holding
Aceland Holdings Ltd.	1 & 2	120,000,000	60.00%
Redwood Pacific Limited	2 & 4	120,000,000	60.00%
HSBC International Trustee Limited	3 & 4	120,000,000	60.00%
Tang Yuk Lan	5	127,500,000	63.75%
Seiyu Shoji Co. Ltd.		16,000,000	8.00%

Notes:

1. Aceland Holdings Ltd. is the trustee of The Yip Unit Trust, which holds 60% of the shareholdings of the Company.
2. Redwood Pacific Limited is the trustee of The Yip Man Fan Unit Trust, which holds 100% of those units in The Yip Unit Trust.
3. HSBC International Trustee Limited is the trustee of The Yip Man Fan Family Trust, which holds 99.99% of the units in The Yip Man Fan Unit Trust.



# Directors' Report

## OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES *(Continued)*

Notes: *(Continued)*

4. Under Part XV of the SFO, each of Redwood Pacific Limited and HSBC International Trustee Limited is taken to have an interest in the same 120,000,000 ordinary shares held by Aceland Holdings Ltd, on trust for The Yip Unit Trust. These shares therefore duplicate each other.
5. Ms. Tang Yuk Lan is the spouse of Mr. Yip Man Fan. Under Part XV of the SFO, each of Mr. Yip Man Fan and Ms. Tang Yuk Lan is taken to have an interest in the shares held by each other. These shares therefore duplicate each other.

## CONNECTED TRANSACTIONS

During the year ended 30th June 2004, members of the Group entered into (or continued to be party to) the connected transactions (the "Transactions") set out below. The SEHK has, subject to certain conditions, granted a waiver to the Company from strict compliance with the requirements as stipulated in Chapter 14A of the Listing Rules in connection of these Transactions. The waiver was granted up to 30th June 2004 except for the licence agreements where the waiver was granted up to the expiry date of the relevant agreements.

1. Pursuant to a share facilities and services agreement (the "Shared Facilities and Services Agreement") dated 7th January 2002 entered into between Tanrich (Hong Kong) Holdings Limited ("THKHL"), which is beneficially owned as to 80% by Mr. Yip Man Fan, 15% by Toru Tsunoyama and 5% by Ms. Tang Yuk Lan, and which is also controlled by a combination of directors of the Company and Tanrich Futures Limited ("TFL"), TSCL, Tanrich Asset Management Limited ("TAML") and Tanrich Finance Limited ("TFIN") (collectively the "Licensees"), each a subsidiary of the Company. THKHL allows the Licensees to use certain of THKHL's administrative facilities and services at a fee based on the gross floor area occupied by the Group. For the year ended 30th June 2004, the fees, represented the usage of fixed assets and share of renovation expenses, incurred by the Group in respect of this arrangement amounted to approximately HK\$2,247,000 (2003: HK\$2,148,000). The amount has been included in "depreciation" as disclosed in note 28(b) to the accounts.
2. On 4th October 2002, Tanrich Financial (Management) Limited ("TFML"), a wholly-owned subsidiary of the Company, entered into a tenancy agreement with Union Light Investment Limited ("ULIL") for the letting of a villa at No. 18 Henderson Road, Jardine's Lookout, Hong Kong (the "Henderson Road Premises") for a term of 21 months from 1st October, 2002. ULIL is beneficially owned as to 30% by Tanrich Real Estate Group Limited ("TREG"), a wholly owned subsidiary of THKHL, and 70% by Clear Goal International Limited, which, in turn, is beneficially owned as to 95% by Mr. Yip Man Fan (an executive director and chairman of the Company) and 5% by Ms. Tang Yuk Lan (the spouse of Mr. Yip). Under the tenancy agreement, ULIL agreed to let the Henderson Road Premises as landlord, to TFML as tenant, for a term of 21 months commencing 1st October 2002 at a fixed rent of HK\$430,000 per month. This tenancy agreement has expired since 30th June 2004. For the year ended 30th June 2004, the aggregate rental incurred by the Group in respect of this arrangement amounted to approximately HK\$5,160,000 (2003: HK\$3,870,000). The amount has been included in "rental expenses on staff quarter" as disclosed in note 28(a) to the accounts.

# Directors' Report

## CONNECTED TRANSACTIONS *(Continued)*

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

1. The Transactions are:
  - (a) entered into by the Group in the ordinary and usual course of its business; and
  - (b) conducted either (A) on normal commercial terms (which expression will be applied by reference to transactions of a similar nature and to be made by similar entities) or (B) (where there is no available comparison) on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
  - (c) entered into either (A) in accordance with the terms of the agreements governing such transactions or (B) where there are no such agreements on terms no less favourable than those available to or from independent third parties.
2. The aggregate value of each of the following connected transactions will not exceed the respective cap amounts in any financial year as below:
  - (i) the aggregate of licence fee under the Licence Agreements as described on pages 24 and 25 of the annual report of the Company dated 18th September 2003 shall not exceed HK\$7 million for each financial year; and
  - (ii) the aggregate of share facilities and services payable under the Shared Facilities and Services Agreement shall not exceed 5% of the audited consolidated turnover of the Group in that financial year; and
  - (iii) the aggregate of commission income receivable under the client's agreement as described on page 59 of the prospectus of the Company dated 21st January 2002 ("Prospectus") shall not exceed 5% of the audited consolidated turnover of the Group in that financial year.

## ADVANCE TO AN ENTITY UNDER RULE 13.13 OF THE LISTING RULES

### **Advance to a broker**

As at 30th June 2004, the Group had HK\$15.8 million (2003: HK\$37.1 million) receivable from one of its designated brokers in Japan, representing 11.6% (2003: 34.9%) of the net assets of the Group. The amount represented margin deposits maintained with the designated broker by a subsidiary of the Company for trading of Japanese commodity futures on TGE and TOCOM on behalf of clients. The amount is unsecured, non-interest bearing and repayable on demand, subject to the margin deposit requirements.

# Directors' Report

## ADVANCE TO AN ENTITY UNDER RULE 13.13 OF THE LISTING RULES *(Continued)*

### **Advance to a client**

On 16th July 2004, TFIN, an indirect wholly-owned subsidiary of the Company, entered into a loan agreement and ancillary security documentation with an independent third party, Gofield Property Development Limited ("GPD"), to provide a term loan facility to GPD of a principal amount of HK\$20 million (the "Loan") which shall be repayable, together with all interest thereon accrued, by GPD on the date falling six months from the drawdown date of the Loan. The drawdown date of the Loan was on 19th July 2004. GPD may prepay the Loan partially in multiples of HK\$1 million or in full after a period of three months from the drawdown date.

The interest payable in arrears on the amounts due from GPD to TFIN under the Loan in respect of each interest period will be at a rate of 12 per cent. per annum. If applicable, default interest will be payable at a rate of 18 per cent. per annum.

Security has been provided by GPD to TFIN in relation to the Loan in the following forms:

- (i) an assignment, mortgage and charge in respect of GPD's rights to certain sales receivables;
- (ii) a charge over certain property assets; and
- (iii) a personal guarantee from a director of GPD in favour of TFIN in respect of the obligations of GPD under the Loan.

### **PRE-EMPTIVE RIGHTS**

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

### **MAJOR CUSTOMERS**

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

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

### **COMPLIANCE WITH THE CODE OF BEST PRACTICE**

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

# Directors' Report

## AUDIT COMMITTEE

The Company has an Audit Committee in accordance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee comprises two independent non-executive directors, namely Mr. Lam, Andy Siu Wing, JP and Mr. Ma Chiu Cheung, Andrew. During the current financial year, four meetings were held. The Audit Committee had reviewed the Group's accounts, the nature and scope of audit, the effectiveness of internal controls and its compliance.

## RETIREMENT BENEFIT SCHEMES

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

## AUDITORS

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

By order of the Board

**Yip Man Fan**

*Chairman*

Hong Kong, 8th September 2004