Money lending

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, are well assessed. The Group has identified credit worthy corporate clients with a view to provide money lending services since the mid of the financial year ended 30th June 2004. As a result, the turnover of the Group's money lending business for the period under review surged remarkably to HK$2.2 million from HK$308,000. It also achieved an operating profit of approximately HK$2.3 million, representing a growth of 5.6 times from HK$416,000 in the same period of last year.

Corporate finance

The Group's corporate finance business is expected to be one of its core businesses in the long term even though it is still at its developing stage. Notwithstanding its turnover increased by 4.5 times to HK$887,000 for the period under review as compared with HK$197,000 for the corresponding period in 2003, it still suffered an operating loss of HK$2.1 million (2003: loss of HK$1.4 million) because more human resources were invested for expansion in this business segment. During the period under review, we have been executing two corporate finance transactions and engaging as the on-going co-sponsor and lead manager to two proposed listing companies, it is anticipated that the projects will be completed in 2005. We are dedicated to focus our main efforts towards exploring business opportunities to strengthen our corporate finance business.

Wealth management and insurance agency

During the period under review, the turnover of the Group's wealth management and insurance agency business grew by 6.5 times to HK$3.2 million and its operation loss reduced by 43.7% to HK$0.8 million when compared to that of the same period of last year. As a distributor of comprehensive financial products managed by over 30 international asset management companies, we will continue to expand our client base not only in Hong Kong but also in overseas, and focus on the high profit margin financial products in the long run in this business segment.

FINANCIAL REVIEW

Liquidity, financial resources and gearing ratio

The Group's financial policy is to maintain a healthy and sound 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 31st December 2004, the Group had total cash and bank balances of HK$24.9 million (30th June 2004: HK$53.6 million), while net current assets amounted to HK$104.7 million (30th June 2004: HK$105.8 million). The current ratio as a ratio of current assets to current liabilities was about 2.6 times (30th June 2004: 2.4 times).

As at 31st December 2004 and 30th June 2004, the Group had no borrowings which resulted in zero gearing ratio. The gearing ratio represented the ratio of total borrowings to the total equity of the Group.

As at 31st December 2004 and 30th June 2004, the Group had aggregate banking facilities of HK$106.0 million, composing 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.

These banking facilities were secured by clients' pledged securities, certain non-trading securities of the Group, 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 held and material acquisition and disposal of investments and subsidiaries

As at 31st December 2004, the Group had listed equities of Hong Kong Exchanges and Clearing Limited with fair value amounted to HK$27.2 million (30th June 2004: HK$20.9 million). An unrealised gain of HK$6.3 million was recorded in the Group's investment revaluation reserve during the six months ended 31st December 2004 as a result of a further boost in the Hong Kong stock market.

During the period under review, there was no material acquisition or disposal of investments and subsidiaries.

Material investments

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

Charges on assets

As at 31st December 2004, marketable securities with an aggregate value of HK$76.3 million (30th June 2004: HK$8.0 million) were pledged as collateral for banking facilities, HK$27.2 million of which were beneficially owned by the Company and a subsidiary of the Company and the remaining HK$49.1 million marketable securities were owned by the clients of a subsidiary of the Company.

The subsidiaries of the Company pledge bank deposits as collateral to authorised financial institutions from time to time for foreign exchange deferred trading and banking facilities. As at 31st December 2004, bank deposits of HK$1.2 million (30th June 2004: HK$1.6 million) and HK$1.0 million (30th June 2004: HK$1.8 million) were pledged to authorised financial institutions for foreign exchange deferred trading and banking facilities respectively.

Contingent liabilities

As at 31st December 2004, the Company has guaranteed the banking facilities of HK$105.5 million granted to two of its subsidiaries. The banking facilities were applied in their normal course of business activities. The Company has also guaranteed the liabilities of one of its subsidiaries up to an aggregate amount of not less than HK$10 million in order to comply with the requirement of unencumbered assets contained in the Rules Governing the Listing of Securities on the Growth Enterprise Market of the SEHK (the "GEM Listing Rules").

As at 31st December 2004, an independent third party and Tanrich Futures Limited ("TFL"), an indirect wholly-owned subsidiary of the Company, were engaged in arbitration proceedings concerning, inter alia, the alleged unauthorised trading of futures contracts by an ex-employee of TFL. TFL intends to defend the said arbitration proceedings. In the event that the defence of the arbitration proceedings is unsuccessful, TFL may be held liable for an amount in the region of HK$1.5 million to HK$2.5 million, inclusive of interest and legal costs. Exchange of correspondence is currently in process between two parties and no conclusion was reached as at 31st December 2004. It is not currently possible to estimate the eventual outcome of the claim and based on legal advice to date, the directors of the Company consider that no provision needs to be made in the accounts.

Exposure to fluctuations in exchange rates and related hedges

The Group has exposure to foreign exchange fluctuation as a result of placing margin deposit 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 its foreign exchange risk.

As at 31st December 2004, the Group had a total margin deposit placed with the two designated futures commission merchants of 278.3 million Japanese Yen and a bank deposit of 90.4 million Japanese Yen, total Japanese Yen being equivalent to approximately HK$27.9 million. This amount was hedged with USD/JPY foreign exchange deferred trading equivalent to an aggregate amount of US$3.0 million, which represented 84.0% of the Group's net foreign exchange exposure (30th June 2004: 81.2%).

STAFF

As at 31st December 2004, the Group had a total of 174 full-time employees. The Group operates different remuneration schemes for account executives and other supporting and general staff respectively. Account executives are remunerated on the basis of on-target-earning packages comprising base pay or drawing, commission and/or bonus. Other supporting and general staff are offered base salary and year-end discretionary bonus. The Group also provides training programs for the staff to enhance their skills and products, regulatory and compliance knowledge.