

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.

The Company has share options schemes under which the Company may grant options to eligible employees to subscribe for shares in the Company. Particulars of the share options of the Company outstanding as at 31st December 2004 are to be set out on pages 11 to 12.

PLANS AND PROSPECTS

Looking ahead, despite the likelihood of Hong Kong's capital market being obsessed by certain uncertainties on the international front with the advent of an interest rate up-cycle in the US, volatility in oil prices and the macro-economic damping measures adopted by the Mainland government, activities in the primary and secondary market in Hong Kong are expected to remain buoyant and sustained by the expected continuing stable growth in the Hong Kong and Mainland economies. Tanrich is dedicated to capture all business opportunities to further expand its businesses, especially in the securities broking, securities margin financing, corporate finance and wealth management businesses.

It is important that competent people lead in every aspect of the Group's business development and planning. We are therefore pleased that two executive directors with extensive experience and professional knowledge have joined Tanrich. We believe that they will bring in innovative management know-how and other important elements to the Group and in associate with the Group's existing dedicated top management to lead Tanrich facing challenges and changes ahead in business development, internal organisational restructuring, cost rationalisation and technological innovation.

SUBSEQUENT EVENTS

Subsequent to 31st December 2004, a former client of TFL has instituted legal proceedings against TFL and two of its employees (one of which was an ex-employee) concerning, inter alia, alleged improper management of the client's trading account and the client claimed for damages in the sum of approximately HK\$3 million. TFL considers that such allegations are without merit and it will defend the proceedings accordingly. In the event that the defence is unsuccessful, TFL may be held liable for the said damages, interest and legal costs in a range of HK\$5 million to HK\$6 million. TFL is in the process of filing a defence and as the case is currently at its infant stage, 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.

Save as aforesaid, there were no significant events subsequent to 31st December 2004.