

PROFIT AND LOSS ACCOUNT FOR THE SIX MONTHS ENDED 31ST DECEMBER 2003

	Futures broking HK\$'000	Securities broking HK\$'000	Securities margin financing HK\$'000	Corporate finance HK\$'000	Insurance agency HK\$'000	Money lending HK\$'000	Proprietary trading HK\$'000	Other operations HK\$'000	Consolidated HK\$'000
TURNOVER	55,267	4,452	1,397	197	489	308	5,491	1	67,602
RESULTS	13,131	902	293	(1,417)	(1,431)	416	4,229	(17)	16,106
Finance costs									(159)
Gain on disposal of non-trading investments									145
Taxation									(2,987)
Profit attributable to shareholders									13,105

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.

3. Staff costs

	Six months ended 31st December	
	2004 HK\$'000	2003 HK\$'000
Salaries, commissions and allowances	23,954	30,374
Contribution to retirement benefits schemes	555	466
Rental expenses on staff quarter	58	2,622
Others	110	139
Staff costs include directors' emoluments	24,677	33,601

4. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the period.

The amount of taxation charged to the consolidated profit and loss account represents:

	Six months ended	
	31st December	
	2004	2003
	HK\$'000	HK\$'000
Current taxation:		
Hong Kong profits tax	48	2,987
Deferred taxation relating to the origination and reversal of temporary differences	267	–
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Taxation charge	315	2,987
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5. Dividends

	Six months ended	
	31st December	
	2004	2003
	HK\$'000	HK\$'000
Final dividend paid:		
HK1 cent (2003: HK1 cent) per ordinary share (<i>Note a</i>)	2,000	2,000
Interim dividend proposed:		
Nil (2003: HK1 cent) per ordinary share (<i>Note b</i>)	–	2,000
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	2,000	4,000
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Note (a): At a board meeting held on 12th October 2004, the Board declared a final dividend of HK1 cent (2003: HK1 cent) per ordinary share for the year ended 30th June 2004, which was paid on 29th October 2004.

Note (b): At a board meeting held on 21st March 2005, the Board has resolved not to declare an interim dividend for the six months ended 31st December 2004 (2003: HK1 cent).

6. Earnings per share

The calculations of basic and diluted earnings per share for the six months ended 31st December 2004 are based on the Group's profit attributable to shareholders of HK\$316,000 (2003: HK\$13,105,000).

The basic earnings per share is based on the weighted average number of 200,000,000 (2003: 200,000,000) ordinary shares in issue during the period. The diluted earnings per share is based on 204,579,000 (2003: 200,000,000) ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average number of 4,579,000 (2003: Nil) ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

7. Non-trading investments

These non-trading investments are listed equities in Hong Kong and booked at fair value in the accounts.

8. Loans and advances

Loans and advances are granted to the clients by the subsidiaries of the Company based on credit assessment. Their size and terms are offered subject to their pledged collateral.

9. Accounts receivable

	31st December 2004 HK\$'000	30th June 2004 HK\$'000
Accounts receivable arising from the ordinary course of business of broking in securities and futures contracts:		
– securities cash clients	4,914	3,102
– securities margin clients	43,793	49,037
– securities clearing house and brokers	20,289	3,227
– futures clearing house and brokers		
– Hong Kong Futures Exchange Clearing Corporation Limited (the "HKFECC")	663	601
– brokers for commodity futures contracts on Tokyo Grain Exchange and Tokyo Commodity Exchange	8,808	24,579
– brokers for commodity and currency futures contracts on other overseas exchanges	16,293	19,904
Accounts receivable arising from the provision of corporate finance advisory services	299	30
Accounts receivable arising from provision of unit trusts and insurance-linked products agency services	1,341	747
	96,400	101,227

The accounts receivable from HKFECC exclude a deposit of HK\$484,000 (30th June 2004: HK\$1,170,000) relating to the clients' monies.

Credit policy for margin lending activities

Accounts receivable from securities margin clients represent loans granted to the securities margin clients by a subsidiary of the Company, Tanrich Securities Company Limited ("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 with reference to the recommendations from CCCWG on a periodic 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 reviews the overall risk and credit control on a bi-weekly basis. CCC decides the actions to be taken for the clients, should the securities 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, commodity and currency futures contracts represent the margin deposits maintained with futures 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 deposits stipulated are repayable on demand.

Accounts receivable from securities margin clients are secured by clients' pledged securities, repayable on demand and bear interest at commercial rates. As at 31st December 2004 and 30th June 2004, included in the accounts receivables from securities margin clients were overdue margin calls of HK\$10,241,000 and HK\$8,628,000 respectively.

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

	31st December 2004 HK\$'000	30th June 2004 HK\$'000
Within 30 days	1,461	4,639
31 – 90 days	3,702	991
91 – 180 days	1,177	–
Over 180 days	3,901	2,998
	10,241	8,628

No provision was made for overdue margin calls as at 31st December 2004 and 30th June 2004.

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 of those transactions. As at 31st December 2004 and 30th June 2004, included in the accounts receivable from securities cash clients were receivables not settled on settlement date of HK\$68,000 and HK\$906,000 respectively.

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

	31st December 2004 HK\$'000	30th June 2004 HK\$'000
Within 30 days	–	142
31 – 90 days	–	84
91 – 180 days	68	–
Over 180 days	–	680
	68	906

No provision was made for these receivables not settled on settlement dates as at 31st December 2004 (30th June 2004: HK\$650,000).

The accounts receivable arising from the provision of corporate finance advisory services are repayable within 30 days.

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

10. Cash and bank balances

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. At 31st December 2004, they have pledged bank deposits of HK\$1,167,000 (30th June 2004: HK\$1,560,000) and HK\$991,000 (30th June 2004: HK\$1,763,000) to authorised financial institutions for foreign exchange deferred trading and banking facilities respectively.

The subsidiaries of the Company maintain trust accounts with authorised financial institutions as a result of their normal business transactions. At 31st December 2004, trust accounts not otherwise dealt with in these accounts amounted to HK\$64,875,000 (30th June 2004: HK\$41,789,000).

11. Accounts payable

	31st December 2004 HK\$'000	30th June 2004 HK\$'000
Accounts payable arising from the ordinary course of business of broking in securities and futures contracts:		
– securities cash clients	18,523	4,366
– securities margin clients	2,404	2,150
– securities brokers	26	–
– futures clients	19,255	38,308
Accounts payable arising from the provision of unit trusts and insurance-linked products agency services	38	110
	40,246	44,934

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

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

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

The accounts payable are stated net of clients' segregated assets of HK\$65,359,000 (30th June 2004: HK\$42,959,000).

12. Share capital

	Ordinary Share of HK\$0.1 each	
	<i>No. of shares</i>	<i>HK\$'000</i>
Authorised:		
At 30th June 2004 and 31st December 2004	1,000,000,000	100,000
Issued and fully paid:		
At 30th June 2004 and 31st December 2004	200,000,000	20,000

13. Reserves

	Investment revaluation reserve <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st July 2003	13,646	17,137	40,836	14,802	86,421
Surplus on revaluation of non-trading investments	8,323	-	-	-	8,323
Reserves transferred to profit and loss account upon disposal of non-trading investments	(145)	-	-	-	(145)
Profit for the period	-	-	-	13,105	13,105
Dividends (<i>Note 5</i>)	-	-	-	(2,000)	(2,000)
At 31st December 2003	21,824	17,137	40,836	25,907	105,704
At 1st July 2004	20,716	17,137	40,836	37,084	115,773
Surplus on revaluation of non-trading investments	6,269	-	-	-	6,269
Profit for the period	-	-	-	316	316
Dividends (<i>Note 5</i>)	-	-	-	(2,000)	(2,000)
At 31st December 2004	26,985	17,137	40,836	35,400	120,358

14. Related party transactions

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the other party or exercise significant influence over the party in making financial and operation decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

During the period, the Group had the following transactions with a related company, Tanrich (Hong Kong) Holdings Limited ("THKHL") and its subsidiary, Union Light Investment Limited ("ULIL"). These related companies are all controlled by a combination of certain directors of the Company. These transactions arose in the ordinary course of the Group's business.

		Six months ended	
		31st December	
	<i>Note</i>	2004	2003
		HK\$'000	HK\$'000
Depreciation	<i>(a)</i>	1,132	1,123
Management fee income	<i>(b)</i>	(480)	(480)
Rental expenses on staff quarter	<i>(c)</i>	–	2,580

- (a) The amount represented the depreciation charge paid to THKHL that should be borne by the Group for its use of fixed assets and share of renovation expenses. The depreciation charge was calculated on the direct cost allocation method.
- (b) The amount represented the staff cost charged to THKHL at HK\$80,000 per month for the management and personnel supportive services provided by the Group.
- (c) The amount represented the rental expenses paid by a subsidiary of the Company to ULIL for the provision of accommodation to a director of the Company. The monthly rental of the premise was determined with reference to open market rentals. This tenancy agreement was terminated on 30th June 2004.

15. Commitments and contingent liabilities

(i) Commitments under operating leases

As at 31st December 2004, the Group had future aggregate minimum lease payments under non-cancellable operating lease in respect of office premises as follows:

	31st December 2004 HK\$'000	30th June 2004 HK\$'000
Not later than one year	5,373	8,493
Later than one year and not later than five years	3,909	5,642
	9,282	14,135

(ii) Capital commitments for property, plant and equipment

	31st December 2004 HK\$'000	30th June 2004 HK\$'000
Contracted but not provided for	–	503

(iii) Other commitments

As at 31st December 2004, the Company has guaranteed the banking facilities of HK\$105.5 million (30th June 2004: 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 (30th June 2004: Nil) in order to comply with the requirement of unencumbered assets contained in the GEM Listing Rules.

(iv) Off-balance sheet 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 off-balance sheet financial instruments outstanding at 31st December 2004:

	Contract/notional amounts	Fair value assets/ (liabilities)
	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 31st December 2004		
Equity index futures contracts – Trading	2,133	(7)
Currency futures contracts – Trading	221,411	(1,727)
Foreign exchange deferred trading – Hedging	23,331	162
As at 30th June 2004		
Equity index futures contracts – Trading	6,760	(106)
Currency futures contracts – Trading	68,950	(61)
Foreign exchange deferred trading – Hedging	31,200	133

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 Group's exposure to the price or currency risks. The financial instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market prices or foreign exchange rates relative to their terms.

Market risks associated with the futures contracts arise due to the possible movements in indices and securities values underlying these instruments. Other market and credit risks include the possibility that there may be an illiquid market for the futures contracts, that the changes in the values of the futures contracts may not directly correlate with changes in the values of the underlying currencies, commodities, indices, or securities, or that the counterparty to a future contract defaults on its obligation to perform under the terms of the contract.

(v) Contingent liability

As at 31st December 2004, an independent third party and 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 above claim and based on legal advice to date, the directors of the Company consider that no provision needs to be made in the accounts.

16. 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.

On behalf of the Board

YIP Man Fan

Chairman

Hong Kong, 21st March 2005