



Management Discussion and Analysis

BUSINESS REVIEW

During the year ended 30 June 2006, the Group still faced a challenging time due to keen competition in the futures broking business despite the augmentation in the corporate finance and the wealth management and insurance agency businesses. Turnover of the Group for the year ended 30 June 2006 was HK\$69.3 million, representing a decrease of 12.0% as compared with last year. Despite the decrease in turnover, the Group recorded profit attributable to equity holders of the Company of HK\$4.2 million (2005: Loss of HK\$11.1 million) as a result of the profit from realization of certain listed investments of HK\$18.2 million. With the effort from diversification of business, the turnover of each business segment other than futures broking showed improvement.

Futures broking

Following the drainage of experienced account executives, the commission income derived from broking in futures contracts for the year dropped to HK\$36.2 million (2005: HK\$52.3 million) by 30.8% as compared to last year. The management has been reviewing the operation system and sales strategies since 2005. As a result, the operating costs of futures broking successfully decreased and helped reducing the segment loss by 22.8% to HK\$8.5 million. Other than the cost cutting exercise, the management will continue to strengthen the sales and marketing activities. The Group has also put in more resources in recruiting and retaining our valuable sales force.



Securities broking and margin financing

The turnover from securities broking and margin financing business for the year rebounded to HK\$10.2 million by 9.5% from last year. However, the segment profit was only HK\$0.5 million (2005: HK\$1.8 million) due to the new allocation basis of the administrative expenses from head office to better reflect the operating costs of each business segment.

The increasing number of listed companies in The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), especially those PRC state-owned entities, have attracted domestic and overseas investors and induced more transactions. On the other hand, the severe competition in the broking market has pressure in the rate of commission income. The management will further focus on exploring corporate customers to secure commission income. We are also putting more effort in developing the electronic trading system to provide more convenient and better services to our customers.



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Corporate finance

After going through the cultivating period of the corporate finance business, the team successfully sponsored a company be listed on the main board of the Stock Exchange during the financial year. The corporate finance business recorded an encouraging increase in turnover by 35.8% to HK\$2.5 million. The operating loss for the year also decreased by more than 53.9% from HK\$4.0 million to HK\$1.9 million.

The Group's corporate finance business is expected to be one of its core businesses in the long run. With the satisfactory result of the first company sponsored by us and be listed on the Stock Exchange, we have proved our expertise and capability. We shall further explore business opportunities to strengthen our corporate finance business.

Wealth management and insurance agency

During the year, the turnover of the Group's wealth management and insurance agency business increased by 11.8% to HK\$10.0 million. It is expected that the growth potential of wealth management and financial planning business to be prosperous. The Group has been putting more resources in developing the sales force and the supporting activity in research and analysis. The segment loss for the period increased to HK\$1.5 million accordingly.

The Group committed to further develop the wealth management business and establish partnership with other financial institutions to provide wider variety of products to our customers.

Money lending

As a result of early partial payments from the borrower, the loan principal reduced to HK\$5.2 million as at the year end date. The interest income of the Group's money lending business for the year accordingly dropped by 52.9% to HK\$1.7 million from that of HK\$3.5 million in 2005. The operating profit also reduced to HK\$1.6 million. It is the Group's policy to capture profit generating opportunities by identifying credit worthy corporate clients with a view to provide money lending services.



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PROSPECTS

The financial market of Hong Kong is more and more mature and traditional products cannot satisfy the sophisticated investors well. The Group is looking for possibilities to cooperate with other financial institutions to develop new products and investment derivatives. The Group may also consider to expand by mergers and acquisitions other than organic growth.

The Group has been inviting more senior executives to join the Group to strengthen the various skills and know-how to cope with every challenge ahead. Our account executives and financial planners are encouraged to obtain licences for different financial products to provide all-round advices to our clients for meeting their different investment objectives and requirements. Other than recruitment from the market, we have also structured training program for our account executives for enhancing their professional knowledge and ethics.

The revamping of the content of Tanrich-Online, our financial website (www.tanrich.com), in the first quarter of 2006 has attracted more and more viewers. In Tanrich-Online, the latest market news, all-round information on key commodities and foreign currencies and proprietary strategy reports are updated promptly. The management believes that our website would become an essential tool for our clients in stocks, FOREX futures and commodity futures trading.



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FINANCIAL REVIEW

Liquidity, financial resources, gearing ratio and capital structure

The Group has maintained a healthy and stable 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 30 June 2006, the Group had total cash and bank balances of HK\$67.1 million (2005: HK\$38.3 million), while net current assets amounted to HK\$101.7 million (2005: HK\$78.6 million). The current ratio as a ratio of current assets to current liabilities was about 3.1 (2005: 2.6). The increase in cash and bank balances are mainly due to the realization of certain listed investments and the partial payment of a loan from the borrower.

At the balance sheet date, 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.

Banking facilities and charges on assets

As at 30 June 2006, the Group had aggregate banking facilities of HK\$100.0 million. The drawdown of certain banking facilities of HK\$94.0 million is subject to the market value of the marketable securities pledged. At the balance sheet date, the market value of the clients' pledged securities amounted to approximately HK\$224.9 million. The Company has provided corporate guarantees for the facilities of HK\$99.5 million granted to its subsidiaries from banks, and such facilities were not utilised at the balance sheet date in 2006. All the banking facilities were denominated in Hong Kong dollars and subject to commercial floating interest rates. There were no seasonal factors affecting the Group's borrowing requirements.

The Group pledged certain investments in listed securities of approximately HK\$40.2 million as the collateral of the banking facilities (2005: HK\$26.2 million). The subsidiaries also pledged bank deposits of approximately HK\$1.3 million (2005: HK\$1.5 million) for foreign exchange deferred trading and general banking facilities.

Save as disclosed above, no other assets were pledged or under charge for any purposes.



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MATERIAL INVESTMENTS

Significant investments held and material acquisition and disposal

During the year, the Group realized certain investments in listed securities with a profit of HK\$18.2 million. The remaining long-term investments have been reclassified as “available-for-sale financial assets” in accordance with the new Hong Kong Financial Reporting Standards. The investments have been appreciated with reference to the closing market price per share from HK\$20.10 to HK\$49.95 which increased the equity by approximately HK\$27.0 million.

As far as practicable and up to the date of this report, the Group has no planning on any major investments or acquisition of capital assets in the foreseeable future.

CONTINGENT LIABILITIES

Other than the guarantee granted to certain subsidiaries of the Company for general banking facilities as stated above, the Company has also guaranteed the liabilities of one of its subsidiaries upto an aggregate amount of not less than HK\$10.0 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 Stock Exchange.

As disclosed in the 2005 annual report, the Group was engaged in arbitration proceedings, with an independent third party, concerning, inter alia, the alleged unauthorised trading of futures contracts by an ex-employee of the Group. Such contingent claims did not have any further progress during the year ended 30 June 2006 and accordingly, the directors maintained the same opinion as in previous year that it is not currently possible to estimate the eventual outcome of the above claim and having taken appropriate legal advice, the directors of the Company consider it is not necessary to make any provision in this regard.



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EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

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 its foreign exchange risk.

As at 30 June 2006, the Group had a total margin deposit placed with the two designated futures commission merchants of approximately Japanese Yen 218.1 million and a bank deposit of approximately Japanese Yen 0.3 million, total Japanese Yen being equivalent to approximately HK\$14.8 million. This amount has been properly hedged with USD/JPY foreign exchange deferred trading.

STAFF

At the year end date, the Group had a total of 143 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. The Group launched new policy for supporting and general staff that additional allowances are offered on top of the base salaries with reference to their performance. All supporting and general staff is also entitled to year-end discretionary bonuses. The Group also provides training programs for the staff to enhance their skills and products, regulatory and compliance knowledge.

The Company has share option schemes under which the Company may grant options to eligible persons to subscribe for shares in the Company as a long-term incentive scheme.