Notes to the Financial Statements

Year ended 30 June 2006

CORPORATE INFORMATION

Tanrich Financial Holdings Limited (the "Company") is a company incorporated in Bermuda with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

1. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group adopted the following new/revised Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for accounting periods beginning on or after 1 January 2005. The major impacts on the changes in accounting policies are summarised below:

HKAS 1 Presentation of financial statements

HKAS 1 has affected the presentation of minority interests and the comparative figures have been restated accordingly.

HKFRS 2 Share-based payment

The adoption of HKFRS 2 has resulted in a change in the accounting policy for the recognition of an expense and a corresponding entry to equity in respect of directors' and employee's share options. The Group has applied HKFRS 2 retrospectively and has taken advantage of the transitional provisions provided therein. As a result, the Group has applied HKFRS 2 only to share options granted after 7 November 2002 which had not yet vested on 1 July 2005. The accounting policy of share-based payment transactions is described in note 2 to the financial statements.

The adoption of HKFRS 2 had no significant impact on the results and financial position for the current and prior accounting years. The options granted during the year have not been vested. The expense so calculated is immaterial to the financial statements for the year ended 30 June 2006.

HKAS 24 Related party disclosures

HKAS 24 has affected the identification of related parties and the level of related-party disclosures. Details of the new definition of related parties are set out in note 2 to the financial statements. The adoption of HKAS 24 has no material impact on the Group's financial statements for the current and prior accounting years.

1. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

HKAS 32 Financial instruments: Disclosure and presentation and HKAS 39 Financial instruments: Recognition and measurement

In the current year, the Group has applied HKAS 32 and HKAS 39 which have resulted in a change in the accounting policy for recognition, measurement, derecognition and disclosure of financial instruments. HKAS 32 requires retrospective application. The application of HKAS 32 had no material effect on the presentation of financial instruments in the financial statements of the Group. HKAS 39, which is effective for accounting periods beginning on or after 1 January 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis.

Prior to 30 June 2005, the Group classified and measured its equity securities as non-trading investments and trading securities and any unrealised gains or losses are recognised in the equity and the income statement respectively.

Upon the adoption of HKASs 32 and 39, the Group's investments including non-trading investments (under non-current assets and current assets), trading securities (under current assets) were redesignated as available-for-sale financial assets (under non-current assets and current assets) and investments held for trading (under current assets) on 1 July 2005. The classification depends on the purposes for which the assets are acquired. Available-for-sale financial assets and investments held for trading are carried at fair value, with changes in fair values being recognised in the equity and in the income statement respectively. The redesignation of financial assets had no material effect on the results of the current or prior accounting years.

Future changes in HKFRSs

At the date of authorisation of these financial statements, the HKICPA has issued a number of new or revised accounting standards and interpretations that are not yet effective and the Group has not early adopted. Except for the following amendments, which will be effective from the next financial year, the directors anticipate that the adoption of these new/revised HKFRSs in the future accounting periods will have no material impact on the results of the Group.

HKAS 39 and HKFRS 4 (Amendments): Financial guarantee contracts

A financial guarantee contract is a contract that requires the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

1. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

HKAS 39 and HKFRS 4 (Amendments): Financial guarantee contracts *(Continued)*

Financial guarantee contracts are accounted for as financial instruments under HKAS 39 and are initially recognised at fair value. Subsequently, such contracts are measured at the higher of the amount determined in accordance with HKAS 37 Provisions, contingent liabilities and contingent assets and the amount initially recognised less, where appropriate, cumulative amortisation recognised over the life of the guarantee on a straight-line basis.

The Group is not yet in a position to reasonably estimate the impact on the adoption of the above amendments in the period of initial application to the Company's financial statements.

2. PRINCIPAL ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Companies Ordinance.

Basis of preparation

The financial statements have been prepared on the historical cost basis, except for available-for-sale financial assets and investments held for trading, which are measured at fair value as explained in the principal accounting policies set out below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 30 June each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All inter-company transactions and balances within the Group are eliminated on consolidation.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Subsidiaries

A subsidiary, is an entity, in which the Company, directly or indirectly, has the power to govern the financial and operating policies so as to obtain benefits from its activities.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less accumulated impairment losses. The carrying amount of the investment is reduced to its recoverable amount on an individual basis. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the year in which they are incurred.

Depreciation of leasehold improvements is calculated to write off their cost less accumulated impairment losses over the unexpired periods of the leases or their expected useful lives to the Group whichever is shorter.

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment over their estimated useful lives from the date on which they are available for use and after taking into account of their estimated residual values, using the straight-line method, at the following rates per annum:

Furniture, fixtures and office equipment	20%
Computer equipment	33 $^{1}/_{3}$%

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Intangible assets

The Group holds two trading rights on the Stock Exchange and two trading rights on The Hong Kong Futures Exchange Limited (the "Futures Exchange"). One trading right on the Stock Exchange was purchased during the year ended 30 June 2003, the remaining three trading rights are recorded at zero book value. The useful life of the trading right acquired in 2003 is estimated to be ten years, and its cost is amortised over the estimated useful life on a straight line basis. The carrying value of this trading right is reviewed for impairment annually or more frequently when there is indication that the carrying value may not be recoverable.

Financial instruments

Financial assets and financial liabilities are recognised on a trade date basis when the Group becomes a party to the contractual provisions of the instruments.

Investments

Investments are classified as either investments held for trading or as available-for-sale, and are measured at fair value subsequent to initial recognition. Gains and losses arising from changes in fair value or disposal of investments held for trading are included in the income statement in the period they arise. For available-for-sale financial assets, gains and losses arising from changes in fair value are recognised directly in the equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gains or losses previously recognised in the equity is realised in the income statement for the period.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets may be impaired. In case of equity securities classified as available-for-sale financial assets are impaired, the cumulative losses less any impairment loss on that financial asset previously recognised the equity, is removed from the equity and recognised in the income statement. Such impairment losses recognised in income statement are not subsequently reversed through income statement. Impairment losses recognised in income statement for debt instruments classified as available-for-sale are subsequently reversed through income statement if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and with no intention of trading. They are measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on acquisition and the amortization is taken to the income statement, over the period to maturity. Any gains and losses are recognised in the income statement when the loans and advances are derecognised or impaired.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Accounts receivable and payable

Accounts receivables are recognised at cost which approximates to their fair values, less provision for impairment. A provision for impairment of accounts receivable is established when there is objective evidence that the Group will not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision is the difference between the assets' carrying amount and the present value of estimated future cash flow, discounted at the effective interest rate. The amount of provision is recognised in the income statement.

Accounts payable are initially recognised at fair value, and are subsequently measured at amortised cost, using effective interest method.

Trust accounts

Trust accounts maintained by the Group to hold clients' monies are treated as off-balance sheet items and offset against accounts payable.

Cash equivalents

For the purpose of cash flow statement, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue and costs, if applicable, can be measured reliably and on the following bases.

Commission income on dealing in securities and futures contracts is recognised on the transaction dates when the contracts are executed.

Commission income on sale of unit trusts and insurance-linked products is recognised in the period when services are rendered.

Corporate finance advisory fees are recognised when the services are rendered and on the basis of the stage of completion of each individual project.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Interest income is recognised as the interest accrues (using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected useful life of the financial instrument) to the net carrying amount of the financial asset.

Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("functional currency").

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Impairment loss

At each balance sheet date, the Group reviews internal and external sources of information to determine whether the carrying amounts of its property, plant and equipment, intangible asset and investment in subsidiaries have suffered an impairment loss or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs to sell and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

A reversal of impairment loss is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment loss is recognised as income immediately.

Borrowing costs

Borrowing costs are recognised as an expense when incurred.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. Expenditures for which a provision has been recognised are charged against the related provision in the year in which the expenditures are incurred. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to income statement on a straight-line basis over the term of the relevant lease.

Lease incentives are recognised in the income statement as an integral part of the net consideration agreed for the use of the leased asset. Contingent rentals are recognised as expenses in the accounting period in which they are incurred.

Employee benefits

Defined contribution plans

The obligations for contributions to defined contribution retirement scheme are recognised as an expense in the income statement as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the scheme are held separately from those of the Group in an independently administered fund.

Long service payment

The Group's net obligation in respect of long service payment under the Employment Ordinance is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value and the fair value of any related assets, including retirement scheme benefit, is deducted.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Share-based payment

The Company issues equity-settled share-based payments to eligible persons including directors of the Company and any other persons including consultants, advisors, agents etc. to subscribe for shares in the Company. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, together with a corresponding increase in equity, based on the Group's estimate of shares that will eventually vest and adjusted for the effort of non market-based vesting conditions.

Taxation

The charge for current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor taxable profit or loss, it is not accounted for.

The deferred tax liabilities and assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Related parties

A party is related to the Group if:

(a) directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; or has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;

(b) the party is an associate of the Group;

(c) the party is a joint venture in which the Group is a venturer;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or;

(g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

Critical accounting estimates and judgements

Estimates and judgements are currently evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Apart from information disclosed elsewhere in these financial statements, the following summarise estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within next financial year.

Allowance for bad and doubtful debts

The provisioning policy for bad and doubtful debts of the Group is based on the evaluation of collectability and ageing analysis of the accounts receivable and on management's judgment. At the balance sheet date, the accounts receivable, net of provision, amounted to HK$50,080,000 (2005: HK$65,727,000). A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of these customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance will be required.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Critical accounting estimates and judgements *(Continued)*

Estimation of recoverability of deferred tax assets

The Group reviews the carrying amounts of deferred tax assets at each balance sheet date and estimates whether sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised. The estimation requires the Group to make an estimate of the expected future taxable profit to be derived from each individual subsidiary. During the current year, management determined to derecognise the previously recognised deferred tax assets of approximate HK$3,266,000 as the related subsidiaries continuously suffer losses (details refer to note 22).

3. TURNOVER AND REVENUE

The principal activities of the Group comprises:

– broking index, commodity and currency futures contracts and securities for its clients on Tokyo Grain Exchange ("TGE"), Tokyo Commodity Exchange ("TOCOM"), the Futures Exchange, the Stock Exchange and other overseas exchanges such as Chicago Mercantile Exchange and New York Board of Trade etc.;

– provision of margin financing, corporate finance advisory services, agency services for unit trusts and insurance-linked products, and money lending;

– trading in listed securities on the Stock Exchange, listed equity index futures contracts on the Futures Exchange and listed currency and commodity futures contracts on overseas exchanges on its own account.

Notes to the Financial Statements

Year ended 30 June 2006

3. TURNOVER AND REVENUE *(Continued)*

	2006	2005
	HK$'000	*HK$'000*
Brokerage commission:		
– commodity and currency futures contracts on overseas exchanges	**35,848**	52,133
– index futures contracts on the Futures Exchange	**340**	139
– securities dealing	**6,763**	5,703
Advisory, wealth management and insurance agency fees:		
– corporate finance and advisory	**2,461**	1,812
– commission on sale of unit trust and insurance-linked products	**9,957**	8,907
Interest income:		
– securities margin financing	**3,443**	3,616
– loans and advances	**1,654**	3,515
Proprietary trading in listed securities		
– gross proceeds from sale of investments held for trading/trading securities	**5,547**	1,773
Net results from proprietary trading in futures contracts:		
– on the Futures Exchange	**(1,941)**	(305)
– on overseas exchanges	**5,215**	1,448
Turnover	**69,287**	78,741
Dividend income from listed securities	**1,476**	1,246
Interest income	**1,839**	930
Management fee income	**960**	960
Loan arrangement fee income	**143**	357
Sundry income	**302**	239
Other revenue	**4,720**	3,732
Revenue	**74,007**	82,473

4. SEGMENT INFORMATION

Business segments

In accordance with the Group's internal financial reporting, management has determined that business segments be presented as the primary reporting format. As less than 10% of the consolidated turnover and consolidated operating results of the Group are derived from customers outside Hong Kong, and over 90% of the Group's assets are originated from business decisions and operations based in Hong Kong, no geographical segment reporting is provided.

For management purposes, the Group is currently divided into six operating divisions, namely, futures broking, securities broking and margin financing, corporate finance, wealth management and insurance agency, money lending and proprietary trading. These divisions are the basis on which the Group reports its primary segmental information. The principal activities of these divisions are as follows:

Futures broking	–	Provision of agency and broking services in trading of Japanese commodity futures contracts, US commodity and currency futures contracts and Hong Kong index futures contracts
Securities broking and margin financing	–	Provision of securities broking and margin financing services
Corporate finance	–	Provision of corporate finance services
Wealth management and insurance agency	–	Distribution of unit trusts, mutual funds, insurance-linked products, provision of personal financial consulting and planning services, and provision of insurance agency and broking services
Money lending	–	Provision of corporate and personal financing services
Proprietary trading	–	Proprietary trading in listed securities on the Stock Exchange, listed equity index futures contracts on the Futures Exchange and listed currency and commodity futures contracts on overseas exchanges

Segment assets consist primarily of intangible assets, property, plant and equipment, receivables and operating cash, excluding corporate assets and taxation. Segment liabilities consist of payables and operating liabilities, excluding corporate liabilities and taxation. Capital expenditure comprises additions to intangible assets and property, plant and equipment.

Notes to the Financial Statements

Year ended 30 June 2006

4. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

	2006							
	Futures broking *HK$'000*	Securities broking and margin financing *HK$'000*	Corporate finance *HK$'000*	Wealth manage-ment and insurance agency *HK$'000*	Money lending *HK$'000*	Proprietary trading *HK$'000*	Other operations *HK$'000*	Consolidated *HK$'000*
Turnover	36,188	10,206	2,461	9,957	1,654	8,821	–	69,287
Brokerage and agency commission	(2,822)	(21)	–	(8,031)	–	(1,254)	–	(12,128)
Results	(8,534)	465	(1,862)	(1,500)	1,567	2,510	(2,268)	(9,622)
Gain on disposal of available-for-sale financial assets								18,238
Finance costs								(1,027)
Taxation								(3,328)
Profit for the year								4,261
Assets								
Segment assets	69,008	43,917	4,727	9,970	6,327	12,750	52,337	199,036
Taxation								–
Total assets								199,036
Liabilities								
Segment liabilities	19,955	6,423	38	2,826	19	–	1,138	30,399
Taxation								17,176
Total liabilities								47,575
Other segment information:								
Capital expenditure	242	47	11	9	–	–	24	333
Depreciation	1,185	401	17	42	–	–	13	1,658
Amortisation	–	60	–	–	–	–	–	60

4. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

	2005							
	Futures broking HK$'000	Securities broking and margin financing HK$'000	Corporate finance HK$'000	Wealth management and insurance agency HK$'000	Money lending HK$'000	Proprietary trading HK$'000	Other operations HK$'000	Consolidated HK$'000
Turnover	52,272	9,318	1,812	8,908	3,515	2,916	–	78,741
Brokerage and agency commission	(4,536)	(39)	–	(6,238)	–	(1,117)	–	(11,930)
Results	(11,053)	1,804	(4,042)	(1,308)	3,531	(110)	(309)	(11,487)
Finance costs								(361)
Taxation								737
Loss for the year								(11,111)
Assets								
Segment assets	60,371	55,280	4,741	2,822	14,712	15,481	20,224	173,631
Taxation								3,286
Total assets								176,917
Liabilities								
Segment liabilities	24,437	5,254	210	1,343	83	–	218	31,545
Taxation								17,176
Total liabilities								48,721
Other segment information:								
Capital expenditure	1,708	468	110	–	–	–	70	2,356
Depreciation	1,071	543	86	68	–	–	105	1,873
Amortisation	–	60	–	–	–	–	–	60

Year ended 30 June 2006

5. OTHER INCOME

	2006	2005
	HK$'000	*HK$'000*
Gain on disposal of available-for-sale financial assets	**18,238**	–
Exchange gain, net	**492**	866
Reversal of provision for bad and doubtful debts	**117**	–
	18,847	866

6. PROFIT (LOSS) BEFORE TAXATION

	2006	2005
This is stated after charging:	***HK$'000***	*HK$'000*
(a) Finance costs		
Interest on short-term bank borrowings and overdrafts wholly repayable within five years	**1,027**	361

	2006	2005
	HK$'000	*HK$'000*
(b) Other items		
Employee benefits expense:		
– salaries, commission and allowances	**40,836**	51,355
– contributions to retirement benefit schemes	**916**	1,205
	41,752	52,560
Auditors' remuneration	**760**	1,108
Amortisation of intangible assets	**60**	60
Cost of investments held for trading sold	**5,191**	1,975
Depreciation:		
– on owned property, plant and equipment	**1,658**	1,873
– charged by a related company	**572**	2,276
Loss on disposal of property, plant and equipment	**211**	1
Operating lease payments on premises	**6,338**	7,860
Provision for bad and doubtful debts	**–**	45

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' emoluments

The aggregate amount of emoluments received or receivable by the Company's directors are as follows:

	2006					
Name of director	**Fees**	**Salaries**	**Discretionary bonuses**	**Employer's contribution to retirement benefit schemes**	**Compensation for loss of office as a director**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Executive directors:						
Yip Man Fan	–	1,382	115	34	–	1,531
Kwok Kam Hoi	–	1,229	102	32	–	1,363
Tsunoyama Toru	–	1,075	90	34	–	1,199
Lee, Edmund Kit Ming *(Note 1)*	–	63	–	1	501	565
Independent non-executive directors:						
Lam, Andy Siu Wing	180	–	–	–	–	180
Yu King Tin	180	–	–	–	–	180
Ma, Andrew Chiu Cheung	180	–	–	–	–	180
Sun Shuyi *(Note 3)*	121	–	–	–	–	121
	661	3,749	307	101	501	5,319

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

Directors' emoluments *(Continued)*

2005						
Name of director	Fees	Salaries	Discretionary bonuses	Employer's contribution to retirement benefit schemes	Compensation for loss of office as a director	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors:						
Yip Man Fan	–	1,728	–	34	–	1,762
Kwok Kam Hoi	–	1,536	–	29	–	1,565
Tsunoyama Toru	–	1,344	–	34	–	1,378
Lee, Edmund Kit Ming *(Note 1)*	–	950	–	6	–	956
Lee, Caesar Chi Shing *(Note 2)*	–	840	–	16	300	1,156
Independent non-executive directors:						
Lam, Andy Siu Wing	180	–	–	–	–	180
Yu King Tin	129	–	–	–	–	129
Ma, Andrew Chiu Cheung	83	–	–	–	–	83
Sun Shuyi *(Note 3)*	140	–	–	–	–	140
	532	6,398	–	119	300	7,349

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

Directors' emoluments *(Continued)*

Note:

1. Appointed on 12 January 2005 and resigned on 7 July 2005.
2. Appointed on 1 November 2004 and resigned on 30 June 2005.
3. Resigned on 3 March 2006.

Five highest paid employees' emoluments

Of the five (2005: six) individuals with the highest emoluments, three (2005: four) were directors whose emoluments are disclosed above. The aggregate of the emoluments in respect of the other two (2005: two) individuals were as follows:

	2006	2005
	HK$'000	*HK$'000*
Salaries and other benefits	**2,098**	1,920
Contributions to retirement benefit schemes	**24**	24
	2,122	1,944

	Number of individuals	
The emoluments fell within the following bands:	**2006**	2005
Nil to HK$1,000,000	**1**	2
HK$1,000,001 to HK$1,500,000	**1**	–
	2	2

In additions to the directors' emoluments disclosed above, certain directors were granted share options under the Company's share option schemes. The details of these benefits in kind are disclosed under the section Share Option Schemes in the Directors' Report and note 24 to the financial statements.

Notes to the Financial Statements

Year ended 30 June 2006

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

Five highest paid employees' emoluments *(Continued)*

Except as disclosed above, no emoluments were paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the year. There were no arrangements under which a director waived or agreed to waive any remuneration during the year.

8. TAXATION

Hong Kong Profits Tax has been provided at the rate of 17.5% on the Group's estimated assessable profits arising from Hong Kong during the year.

For the year 2005, Hong Kong Profits Tax has not been provided as the Group did not have estimated assessable profits.

The amount of taxation charged (credited) to the consolidated income statement represents:

	2006	2005
	HK$'000	*HK$'000*
Current taxation:		
Hong Kong Profits Tax		
Current year	**62**	–
Overprovision in previous year	**–**	(740)
	62	(740)
Deferred taxation:		
Origination and reversal of temporary differences	**(20)**	3
Reversal of previously recognised tax losses	**3,286**	–
	3,266	3
Total tax charged (credited) for the year	**3,328**	(737)

8. TAXATION *(Continued)*

Reconciliation of tax charge (credit)

	2006	2005
	HK$'000	*HK$'000*
Profit (Loss) before taxation	**7,589**	(11,848)
Income tax at applicable tax rate of 17.5% (2005: 17.5%)	**1,328**	(2,073)
Non-deductible expenses	**88**	40
Tax exempt revenue	**(3,689)**	(346)
Unrecognised tax losses	**2,238**	2,418
Unrecognised temporary difference	**147**	5
Utilisation of previously unrecognised tax losses	**–**	(41)
De-recognition of previously recognised deferred tax assets	**3,214**	–
Under (Over) provision in prior year	**–**	(740)
Others	**2**	–
Total tax charge (credit) for the year	**3,328**	(737)

9. PROFIT (LOSS) FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Of the profit for the year attributable to equity holders of the Company of HK$4,242,000 (2005: a loss of HK$11,056,000), a profit of HK$432,000 (2005: HK$2,715,000) is dealt with in the financial statements of the Company.

10. EARNINGS (LOSS) PER SHARE

The calculation of basic earnings (loss) per share is based on the net profit (loss) attributable to the equity holders of the Company of approximately HK$4,242,000 (2005: a loss of HK$11,056,000), divided by the weighted average of 200,000,000 (2005: 200,000,000) ordinary shares outstanding during the year.

No diluted earnings (loss) per share was presented as there was an anti-dilutive effect after adjusting for the effects of all dilutive potential ordinary shares.

11. PROPERTY, PLANT AND EQUIPMENT

Group	Leasehold improvements	Furniture and fixtures	Office equipment	Computer equipment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Reconciliation of carrying amount – year ended 30 June 2005					
At beginning of year	411	409	793	1,519	3,132
Additions	1,701	93	288	274	2,356
Disposals	–	–	–	(11)	(11)
Depreciation	(589)	(151)	(357)	(776)	(1,873)
At balance sheet date	1,523	351	724	1,006	3,604
Reconciliation of carrying amount – year ended 30 June 2006					
At beginning of year	**1,523**	**351**	**724**	**1,006**	**3,604**
Additions	**90**	**3**	**37**	**203**	**333**
Disposals	**(251)**	**(53)**	**(16)**	**(62)**	**(382)**
Depreciation	**(586)**	**(116)**	**(313)**	**(643)**	**(1,658)**
At balance sheet date	**776**	**185**	**432**	**504**	**1,897**
At 1 July 2005					
Cost	3,774	838	1,899	4,109	10,620
Accumulated depreciation	(2,251)	(487)	(1,175)	(3,103)	(7,016)
	1,523	351	724	1,006	3,604
At 30 June 2006					
Cost	**3,195**	**767**	**1,915**	**4,210**	**10,087**
Accumulated depreciation	**(2,419)**	**(582)**	**(1,483)**	**(3,706)**	**(8,190)**
	776	**185**	**432**	**504**	**1,897**

12. INTANGIBLE ASSETS

	Group
	HK$'000
Reconciliation of carrying amount – year ended 30 June 2005	
At beginning of year	530
Amortisation	(60)
At balance sheet date	470
Reconciliation of carrying amount – year ended 30 June 2006	
At beginning of year	**470**
Amortisation	**(60)**
At balance sheet date	**410**
At 1 July 2005	
Costs	600
Accumulated amortisation	(130)
	470
At 30 June 2006	
Costs	**600**
Accumulated amortisation	**(190)**
	410

13. INTERESTS IN SUBSIDIARIES AND AMOUNT DUE TO A SUBSIDIARY

		Company	
		2006	2005
	Note	***HK$'000***	*HK$'000*
Non-current			
Interests in subsidiaries			
Unlisted shares, at cost		**65,237**	65,237
Amount due from a subsidiary	*(i)*	**35,400**	34,400
		100,637	99,637
Current			
Amount due to a subsidiary	*(ii)*	**3,513**	–

Note:

(i) The amount due from a subsidiary is unsecured, interest free and has no fixed repayment term. The carrying amount of the amounts due approximates their fair values.

(ii) The amount due to a subsidiary is secured by pledged securities, repayable on demand and bears interest at commercial rates.

13. INTERESTS IN SUBSIDIARIES AND AMOUNT DUE TO A SUBSIDIARY *(Continued)*

Details of the subsidiaries at the balance sheet date are as follows:

Name of subsidiary	Place of incorporation/ place of operation	Issued and fully paid share capital	Percentage of equity interest attributable to the Company *Directly*	*Indirectly*	Principal activities
Tanrich Financial (Management) Limited ("TFML")	British Virgin Islands/ Hong Kong	US$10,000	100%	–	Investment holding
Tanrich Futures Limited ("TFL")	Hong Kong/ Hong Kong	HK$30,000,000 (divided into 20,000,000 ordinary shares and 10,000,000 non-voting deferred shares of HK$1 each)	–	100%	Futures broking
Tanrich Securities Company Limited ("TSCL")	Hong Kong/ Hong Kong	HK$80,000,000 (divided into 55,000,000 ordinary shares and 25,000,000 non-voting deferred shares of HK$1 each)	–	100%	Securities broking, securities margin financing, underwriting and investment advisory services
Tanrich Asset Management Limited ("TAML")	Hong Kong/ Hong Kong	HK$14,000,000 (divided into 8,000,000 ordinary shares and 6,000,000 non-voting deferred shares of HK$1 each)	–	100%	Distribution of unit trusts, mutual funds, insurance-linked products, provision of personal financial consulting and planning services and provision of insurance agency and broking services

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13. INTERESTS IN SUBSIDIARIES AND AMOUNT DUE TO A SUBSIDIARY *(Continued)*

Name of subsidiary	Place of incorporation/ place of operation	Issued and fully paid share capital	Percentage of equity interest attributable to the Company		Principal activities
			Directly	*Indirectly*	
Tanrich Finance Limited ("TFIN")	Hong Kong/ Hong Kong	HK$11,000 (divided into 1,000 ordinary shares and 10,000 non-voting deferred shares of HK$1 each)	–	100%	Provision of corporate and personal financing services
Tanrich Capital Limited ("TCL")	Hong Kong/ Hong Kong	HK$14,000,000 (divided into 14,000,000 ordinary shares of HK$1 each)	–	100%	Provision of corporate finance advisory services
Tanrich Financial Group (China) Limited ("TFC")	Hong Kong/ Hong Kong	HK$1,000,000 (divided into 1,000,000 ordinary shares of HK$1 each)	–	95%	Inactive
Tanrich Wealth Management Limited ("TWML")	Hong Kong/ Hong Kong	HK$6,000,000 (divided into 6,000,000 ordinary shares of HK$1 each)	–	100%	Inactive

In accordance with Articles of Association of each of TFL, TSCL, TAML and TFIN, holders of non-voting deferred shares are entitled to a fixed non-cumulative dividend at a rate of Hong Kong one cent (HK$0.01) per non-voting deferred share when the profit exceeds HK$100,000 million in any financial year.

14. AVAILABLE-FOR-SALE FINANCIAL ASSETS/NON-TRADING INVESTMENTS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Equity investments – listed in Hong Kong				
Non-current	**45,255**	26,251	**40,210**	16,180
Current	**–**	5,782	**–**	–
	45,255	32,033	**40,210**	16,180

The Group has pledged listed investments of aggregate carrying amount of HK$40,210,000 (2005: HK$26,251,000) to a bank as collateral for the banking facilities.

At the balance sheet date, the carrying amount of interests in the following company exceeded 10% of total assets of the Group and the Company.

Name	**Place of incorporation/ place of operation**	**Principal activities**	**Issued and fully paid share capital**	**Percentage interest held**	
				Group	**Company**
Hong Kong Exchanges and Clearing Limited	Hong Kong	Investment holding	Ordinary shares of HK$1 each	0.09%	0.08%

15. OTHER NON-CURRENT ASSETS

	Group	
	2006	2005
	HK$'000	*HK$'000*
Reserve fund deposits with the Hong Kong Futures Exchange Clearing Corporation Limited	**1,500**	1,500
Statutory deposits with the Stock Exchange	**200**	200
Statutory deposits with the Securities and Futures Commission	**100**	100
Contributions to the Central Clearing and Settlement System Guarantee Fund	**100**	100
Admission fees paid to the Hong Kong Securities Clearing Company Limited	**100**	100
	2,000	2,000

16. LOANS AND ADVANCES

	Group	
	2006	2005
	HK$'000	*HK$'000*
Loans and advances		
Unsecured	**239**	–
Secured	**5,000**	14,000
	5,239	14,000
Current portion of loans and advances	**(5,080)**	–
	159	14,000

Secured loans and advances were granted to the clients by the Group based on credit assessment and terms of such loans and advances were offered subject to their pledged collateral.

17. INVESTMENTS HELD FOR TRADING/TRADING SECURITIES

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Listed securities in Hong Kong	**3,500**	–	**3,500**	–
Listed warrants in Hong Kong	**–**	939	**–**	–
	3,500	939	**3,500**	–

18. ACCOUNTS RECEIVABLE

		Group	
		2006	2005
	Note	***HK$'000***	*HK$'000*
Accounts receivable arising from the ordinary course of business of broking in securities and futures contracts:			
– securities cash clients	*18(a)*	**1,808**	2,777
– securities margin clients	*18(b)*	**20,545**	32,725
– securities clearing houses and brokers		**856**	243
– futures clearing houses and brokers	*18(c)*	**26,388**	29,734
Accounts receivable arising from the provision of corporate finance advisory services		**150**	53
Accounts receivable arising from the provision of unit trusts and insurance-linked products agency services		**333**	195
		50,080	65,727

18. ACCOUNTS RECEIVABLE *(Continued)*

Credit policy for margin lending activities

Accounts receivable from securities margin clients represents loans granted to such clients by TSCL. These loans are collaterised by listed securities pledged to TSCL.

Credit limit is set for each client based on their financial and trading credibility and is approved by the Credit Control Committee Working Group ("CCCWG") and by the Credit Control Committee ("CCC") if the credit limit exceeds CCCWG's authority. Clients are allowed to trade only after the accounts opening and credit limit approval processes have been completed. Loans are granted to securities margin clients on the condition that they pledged approved securities with TSCL.

All approved securities are assigned with special margin ratios, which are determined by the CCC, for calculating the stock margin values. CCC reviews and determines the margin ratios for the securities collaterals with reference to the recommendations from CCCWG on a periodic basis.

If any amount of loan outstanding is higher than the eligible securities margin value, TSCL would call for additional funds from the respective securities margin client.

CCCWG is responsible for monitoring the margin call on a daily basis and reviewing the overall risk and credit control on a monthly basis. CCC decides the actions to be taken for the securities margin clients should they 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 houses or brokers to meet the margin requirements of open contracts. Margin calls from clearing houses 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 their pledged securities, repayable on demand and bear interests at commercial rates. As at the balance sheet date, included in the accounts receivable from securities margin clients were overdue margin calls of HK$2,553,000 (2005: HK$4,666,000).

18. ACCOUNTS RECEIVABLE *(Continued)*

Settlement terms *(Continued)*

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. Accounts receivable arising from the provision of corporate finance advisory services, unit trusts and insurance-linked products agency services are repayable within 30 days.

18(a) As at the balance sheet date, no accounts receivable from securities cash clients were outstanding on the settlement dates (2005: HK$95,000). The ageing analysis of these accounts receivable for 2005 was as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within 30 days	**–**	21
31 – 90 days	**–**	–
91 – 180 days	**–**	–
Over 180 days	**–**	74
	–	95

No provision was made for these receivables during the year then ended in 2006 and 2005.

18(b) The ageing analysis of accounts receivable from securities margin clients was as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Current	**17,992**	28,059
Overdue:		
Within 30 days	**49**	1
31 – 90 days	**–**	–
91 – 180 days	**133**	973
Over 180 days	**2,371**	3,692
	20,545	32,725

No provision was made for overdue margin calls during the year then ended in 2006 and 2005.

18(c) The accounts receivable from the futures clearing houses and brokers excludes a deposit of HK$1,154,000 (2005: HK$872,000) relating to the clients' monies in clearing houses.

19. OTHER RECEIVABLES

	Group		**Company**	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Deposits, prepayments and other receivables	**4,437**	3,996	**91**	1
Tax Reserve Certificates issued by the Inland Revenue Department	**17,114**	12,543	**–**	–
Due from a related company *(Note)*	**1,954**	–	**–**	–
	23,505	16,539	**91**	1

Note:

The related company is Tanrich (Hong Kong) Holdings Limited ("THKHL") in which a director of the Company, Mr. Yip Man Fan, has indirect beneficial interests. The amount due represents staff costs and office overheads paid on THKHL's behalf. The amount was the maximum balance outstanding and was fully settled in July 2006.

20. CASH AND CASH EQUIVALENTS

	2006	2005
	HK$'000	*HK$'000*
Cash and bank balances	**65,875**	36,819
Pledged deposits	**1,275**	1,500
As stated in the cash flow statement	**67,150**	38,319

The Group maintains trust accounts with banks to deal with clients' monies in the ordinary course of business. At the balance sheet date, trust monies not otherwise dealt with in the financial statements amounted to HK$41,958,000 (2005: HK$52,577,000).

The Group has pledged bank deposits to secure foreign exchange deferred trading and general banking facilities granted to subsidiaries of the Company.

21. ACCOUNTS PAYABLE

	Group	
	2006	2005
	HK$'000	*HK$'000*
Accounts payable arising from the ordinary course of business of broking in securities and futures contracts:		
– securities cash clients	**4,260**	3,544
– securities margin clients	**188**	251
– futures clients	**16,957**	19,829
– clearing houses	**1,232**	397
Accounts payable arising from the provision of unit trusts and insurance-linked products agency services	**101**	52
	22,738	24,073

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.

Accounts payable arising from 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 deposits stipulated are repayable to clients on demand.

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

Accounts payable are stated net of clients' segregated assets of HK$43,112,000 (2005: HK$53,449,000).

22. DEFERRED TAXATION

The movement for the year in the Group's net deferred tax position was as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
At beginning of year	**(3,266)**	(3,269)
Income statement charge	**3,266**	3
At balance sheet date	**–**	(3,266)

22. DEFERRED TAXATION *(Continued)*

Recognised deferred tax assets (liabilities)

	Assets		Liabilities	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Depreciation allowances	**–**	285	**(25)**	(270)
Tax losses	**25**	3,251	**–**	–
Deferred tax assets (liabilities)	**25**	3,536	**(25)**	(270)
Offset deferred tax assets and liabilities	**(25)**	(250)	**25**	250
Net tax assets (liabilities)	**–**	3,286	**–**	(20)

Unrecognised deferred tax assets arising from

	2006	2005
	HK$'000	*HK$'000*
Deductible temporary differences	**861**	28
Tax losses	**61,443**	29,913
At balance sheet date	**62,304**	29,941

Both the tax losses and the deductible temporary differences do not expire under current tax legislation.

23. SHARE CAPITAL

	Ordinary shares of HK$0.1 each	
	Number of shares	**Amount**
		HK$'000
Authorised:		
At 1 July 2005 and 30 June 2006	1,000,000,000	100,000
Issued and fully paid:		
At 1 July 2005 and 30 June 2006	200,000,000	20,000

24. SHARE OPTION SCHEMES

a) Pre-Listing Share Option Scheme

Pursuant to a share option scheme of the Company (the "Pre-Listing Scheme"), which was adopted on 7 January 2002, the directors of the Company may, at their absolute discretion, grant share options to eligible persons including directors, employees or bona fide consultants of the Group to take up options for share subscription in the Company subject to the terms and conditions stipulated therein and the Listing Rules. A nominal consideration at HK$1 is paid by the grantees for each lot of share options granted. Share options may be exercised in accordance with the terms of the Pre-Listing Scheme at any time during the period commencing one year from the option grant date and expiring on the earlier of the last day of (i) a ten year period from the option grant date or (ii) ten years from the adoption date.

Movements in the number of share options outstanding during the year are as follows:

		Number of options *('000)*			
	Note		**2006**		2005
Exercise price		**HK$0.61**	**HK$0.72**	**Total**	HK$0.72
At beginning of year	*(i)*	**–**	**14,110**	**14,110**	15,040
Granted	*(ii)*	**6,100**	**–**	**6,100**	–
Lapsed	*(iii)*	**–**	**(2,440)**	**(2,440)**	(930)
At balance sheet date	*(iv)*	**6,100**	**11,670**	**17,770**	14,110

Note:

(i) Pursuant to the Pre-Listing Scheme, share options were granted to certain directors, employees and bona fide consultants of the Group on 22 February 2002 at the subscription price of HK$0.72 per share which can be exercised at any time from 22 February 2003 to 7 January 2012. Total consideration of HK$113 was received in respect of the share options granted.

(ii) During the year, a total of 6,100,000 share options were granted to certain directors, employees and bona fide consultants of the Group on 19 December 2005 at the subscription price of HK$0.61 per share which can be exercised at any time from 19 December 2006 to 7 January 2012. Total consideration of HK$8 was received in respect of the share options granted.

(iii) During the year, a total of 2,440,000 (2005: 930,000) share options had lapsed in accordance with the terms and conditions of the Pre-Listing Scheme following the resignation of employees and cessation of consultancy services.

24. SHARE OPTION SCHEMES *(Continued)*

a) Pre-Listing Share Option Scheme *(Continued)*

Note: (Continued)

(iv) Share options outstanding at the balance sheet date have the following terms:

	Number of options *('000)* 2006			**Vested percentages 2006**		Number of options *('000)* 2005	Vested percentages 2005
Exercise price	**HK$0.61**	**HK$0.72**	**Total**	**HK$0.61**	**HK$0.72**	HK$0.72	HK$0.72
Directors	**4,000**	**5,950**	**9,950**	**0%**	**100%**	5,950	100%
Other employees	**1,300**	**5,580**	**6,880**	**0%**	**100%**	7,990	100%
Bona fide consultants	**800**	**140**	**940**	**0%**	**100%**	170	100%
	6,100	**11,670**	**17,770**			14,110	

b) Post-Listing Share Option Scheme

Another share option scheme of the Company was adopted on 30 January 2004 (the "Post-Listing Scheme"). The directors of the Company may, at their absolute discretion, grant share options to eligible persons including directors, employees, advisors, business associates and consultants of the Group and associated companies to subscribe for shares in the Company subject to the terms and conditions stipulated therein and the Listing Rules. No consideration is paid or payable for the acceptance of the share options granted. Share options may be exercised in accordance with the terms of the Post-Listing Scheme at any time during the period not to be less than one year and not to exceed ten years from the grant dates of the relevant options.

Movements in the number of share options outstanding during the year are as follows:

	Note	**Number of options *('000)* 2006**			2005		
Exercise price		**HK$0.80**	**HK$0.67**	**Total**	HK$0.80	HK$0.67	Total
At beginning of year	*(i)*	**2,600**	**16,464**	**19,064**	–	18,614	18,614
Granted	*(ii)*	**–**	**–**	**–**	2,600	–	2,600
Lapsed	*(iii)*	**(2,600)**	**(3,726)**	**(6,326)**	–	(2,150)	(2,150)
At balance sheet date	*(iv)*	**–**	**12,738**	**12,738**	2,600	16,464	19,064

24. SHARE OPTION SCHEMES *(Continued)*

b) Post-Listing Share Option Scheme *(Continued)*

Note:

(i) Pursuant to the Post-Listing Scheme, share options were granted to certain directors, employees, advisors and consultants of the Group:

– on 27 April 2004 at the subscription price of HK$0.67 per share which can be exercised at any time from 27 April 2005 to 26 April 2014 and;

– on 1 February 2005 at the subscription price of HK$0.80 per share which can be exercised at any time from 1 February 2006 to 31 January 2015 respectively.

(ii) No share option has been granted under the Post-Listing Scheme during the year.

(iii) During the year, a total of 6,326,000 (2005: 2,150,000) share options had lapsed in accordance with the terms and conditions of the Post-Listing Scheme following the resignation of directors, employees and cessation of consultancy services.

(iv) Share options outstanding at the end of the year have the following terms:

	Number of options *('000)* 2006	**Vested percentages 2006**	Number of options *('000)* 2005			Vested percentages 2005	
Exercise price	**HK$0.67**	**HK$0.67**	HK$0.80	HK$0.67	Total	HK$0.80	HK$0.67
Directors	**2,000**	**100%**	2,000	2,000	4,000	0%	100%
Other employees	**7,682**	**100%**	600	11,084	11,684	0%	100%
Advisors and consultants	**3,056**	**100%**	–	3,380	3,380	–	100%
	12,738		2,600	16,464	19,064		

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25. RESERVES

Group	Investment revaluation reserve	Share premium	Capital reserve *(Note (a))*	Retained earnings	Total	Minority interest	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July 2004	20,716	17,137	40,836	37,084	115,773	36	115,809
Surplus on revaluation of non-trading investments	5,498	–	–	–	5,498	–	5,498
Loss for the year	–	–	–	(11,056)	(11,056)	(55)	(11,111)
Dividends paid – 2004, final	–	–	–	(2,000)	(2,000)	–	(2,000)
At 30 June 2005	26,214	17,137	40,836	24,028	108,215	(19)	108,196
At 1 July 2005	**26,214**	**17,137**	**40,836**	**24,028**	**108,215**	**(19)**	**108,196**
Change in fair value of available-for-sale financial assets	**37,309**	**–**	**–**	**–**	**37,309**	**–**	**37,309**
Realisation upon disposal of available-for-sale financial assets	**(18,305)**	**–**	**–**	**–**	**(18,305)**	**–**	**(18,305)**
Profit for the year	**–**	**–**	**–**	**4,242**	**4,242**	**19**	**4,261**
At 30 June 2006	**45,218**	**17,137**	**40,836**	**28,270**	**131,461**	**–**	**131,461**

25. RESERVES *(Continued)*

Company	Investment revaluation reserve	Share premium	Contributed surplus *(Note (b))*	Retained earnings	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July 2004	(322)	17,137	65,059	11,320	93,194
Surplus on revaluation of non-trading investments	3,300	–	–	–	3,300
Profit for the year	–	–	–	2,715	2,715
Dividends paid – 2004, final	–	–	–	(2,000)	(2,000)
At 30 June 2005	2,978	17,137	65,059	12,035	97,209
At 1 July 2005	**2,978**	**17,137**	**65,059**	**12,035**	**97,209**
Change in fair value of available-for-sale financial assets	**24,030**	**–**	**–**	**–**	**24,030**
Profit for the year	**–**	**–**	**–**	**432**	**432**
At 30 June 2006	**27,008**	**17,137**	**65,059**	**12,467**	**121,671**

Note:

(a) Capital reserve

The capital reserve of the Group represents the difference between the nominal value of the shares issued by the Company for the acquisition of the subsidiaries and the nominal value of the ordinary shares of these subsidiaries in issue as at 30 June 2001 which were converted into deferred non-voting share capital on 11 January 2002.

(b) Contributed surplus

Contributed surplus represents the difference between the aggregate net asset value of subsidiaries acquired as a result of the reorganisation and the nominal amount of the Company's shares issued for the acquisition. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is available for distribution. However, the Company may not declare or pay a dividend, or make a distribution out of the contributed surplus, if there are reasonable grounds for believing that (i) it would, or would after the payment, be unable to pay its liabilities as they become due; or (ii) the realised value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

25. RESERVES *(Continued)*

Note: (Continued)

(c) Distributable reserve

As at the balance sheet date, in the opinion of the directors of the Company, the reserves of the Company available for distribution to shareholders amounted to HK$77,526,000 (2005: HK$77,094,000) subject to the restriction stated above.

In addition, the share premium account of the Company of HK$17,137,000 can be distributed in the form of fully paid bonus shares pursuant to the Companies Act 1981 of Bermuda.

26. RETIREMENT BENEFIT SCHEMES

The Group operates a defined contribution retirement scheme (the "ORSO Scheme") and a mandatory provident fund scheme (the "MPF Scheme") which comply with all the respective requirements under the Occupational Retirement Schemes Ordinance and the Mandatory Provident Fund Ordinance.

Contributions to the ORSO Scheme depend on employees' service years, and range from five to nine per cent of their basic salaries.

Employees under the ORSO Scheme are entitled fully to the employer's contributions upon completion of ten service years, or at a reduced scale upon completion of three to nine service years. Forfeited contributions by the qualified employees who left the scheme prior to vesting fully in such contributions are used to reduce the Group's contributions.

Contributions to the MPF Scheme are calculated at five percent of the relevant income of each employee subject to a maximum amount of HK$1,000 per month. All statutory contributions under the MPF Scheme are immediately fully vested on the employees.

The aggregate employer's contributions, net of forfeited contributions, which have been dealt with in the income statement for the year amounted to:

	2006	2005
	HK$'000	*HK$'000*
Gross employer's contributions	**1,262**	1,522
Less: forfeited contributions utilised to		
offset employer's contributions for the year	**(346)**	(317)
Net employer's contributions charged to income statement	**916**	1,205

27. RELATED PARTY TRANSACTIONS

Other than disclosed elsewhere in the financial statements, there are other related party transactions entered into by the Group during the year, details of which are set out below:

		Group	
Related party relationship	**Nature of transaction**	**2006**	2005
		HK$'000	*HK$'000*
Key management personnel, excluding directors	Short-term employee benefits	**5,866**	5,922
Related companies			
– TREGL *(Note (i))*	– Depreciation expenses paid	**572**	2,276
– THKHL *(Note (ii))*	– Management fee received	**(960)**	(960)

Note:

During the year, the Group had the following transactions with related companies, Tanrich (Hong Kong) Holdings Limited ("THKHL") and Tanrich Real Estate Group Limited ("TREGL"). The related companies are controlled by a combination of certain directors of the Company. These transactions arose in the ordinary course of the Group's business are as follows:

(i) The amount represented the depreciation charges paid to TREGL that should be borne by the Group for its use of property, plant and equipment and share of renovation expenses. The depreciation charge was calculated on the direct cost allocation method.

(ii) 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.

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's activities expose it to a variety of financial risks: credit risk, interest-rate risk, foreign exchange risk and liquidity risk. The Group's overall risk control focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

The Risk and Credit Control Committee ("RCCC") is responsible for establishing and reviewing credit policies and procedures to minimize systematic and non-systematic credit and financial risks of the Group. RCCC is also responsible for assessing the risk of long term investments and proprietary trading. The fair value of the Group's available-for-sale financial assets and the investments held for trading approximated to their carrying values at the balance sheet date.

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Interest-rate risk

The Group had no borrowings at year end dates. The interest rate risk exposure arises mainly from the margin financing to our securities margin clients and the loans and advances to entities. The interest rates charged and the margin ratio allowed to our securities margin clients were determined with reference to the terms from the banks while the interest rate for loans and advances are fixed. The Group determined the interest rate for loans and advances with appropriate premium to deal with the interest-rate risk.

Credit risk

The Group is exposed to credit risk for all financial assets that a client or counter party in a transaction may default when settlement. The Group's credit policy for securities margin clients are set out in note 18 to the financial statements. The maximum exposure equals to the carrying amount of the account receivables less the market value of the underlying pledged securities.

The maximum exposure of other financial assets equals to their respective carrying amounts.

Foreign currency risk

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.

Liquidity risk

The Group manages to maintain its liquidity position at a prudent and adequate liquidity level. The directors monitor the cash flows daily to ensure sufficient funds available. The financial controller and the relevant senior management would also review the liquidity level in compliance with the statutory requirements for the licensed subsidiaries.

29. COMMITMENTS

Capital expenditure commitments

	Group	
	2006	2005
	HK$'000	*HK$'000*
Contracted but not provided net of deposits paid in the financial statements for the purchase of computer equipment	**276**	276

29. COMMITMENTS *(Continued)*

Commitments under operating leases

The Group leases a number of properties under operating leases, which typically run for an initial period of 2 to 3 years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases, which are payable as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within one year	**4,567**	8,432
In the second to fifth year inclusive	**3,337**	12,408
	7,904	20,840

30. CONTINGENT LIABILITIES

(a) The Company did not have any contingent liabilities in respect of guarantee of HK$99,500,000 (2005: HK$105,000,000) for banking facilities granted to subsidiaries, as such facilities were not utilised at the balance sheet date in 2006 and in 2005.

(b) The Company also guaranteed the liabilities of one of its subsidiaries up to an aggregate amount of not less than HK$10,000,000 (2005: HK$10,000,000) in order to comply with the requirement of unencumbered assets contained in the GEM Listing Rules.

(c) 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.

31. COMPARATIVE FIGURES

As further explained in note 1 to the financial statements, due to the adoption of HKFRSs during the year, the accounting treatment and the presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been restated.