TANRICH

TANRICH FINANCIAL HOLDINGS LIMITED

敦沛金融控股有限公司*

Stock Code: 812

Belief + Responsibility = Trust

商界展關懷

caringcompany 2007/08

# Annual Report 2008

# Content

# Corporate Information

| | |
|---|---|
| **Board of Directors** | *Executive Directors*<br>Dr. YIP Man Fan *(Chairman)*<br>Mr. KWOK Kam Hoi *(Deputy Chairman)*<br>Mr. TSUNOYAMA Toru<br>Ms. WONG, Vicky Lai Ping |
| | *Independent Non-executive Directors*<br>Dr. LAM, Andy Siu Wing, JP<br>Mr. MA, Andrew Chiu Cheung<br>Mr. YU King Tin |
| **Audit Committee** | Dr. LAM, Andy Siu Wing, JP *(Chairman)*<br>Mr. MA, Andrew Chiu Cheung<br>Mr. YU King Tin |
| **Remuneration Committee** | Mr. MA, Andrew Chiu Cheung *(Chairman)*<br>Dr. LAM, Andy Siu Wing, JP<br>Mr. YU King Tin<br>Mr. TSUNOYAMA Toru<br>Ms. WONG, Vicky Lai Ping |
| **Authorised Representative** | Mr. KWOK Kam Hoi<br>Ms. CHEUNG, Fendi Chung Yee |
| **Company Secretary and Qualified Accountant** | Ms. CHEUNG, Fendi Chung Yee |
| **Registered Office** | Clarendon House<br>2 Church Street<br>Hamilton HM11<br>Bermuda |
| **Head Office and Principal Place of Business in Hong Kong** | 16th Floor, Central Plaza<br>18 Harbour Road<br>Wanchai<br>Hong Kong |
| **Bermuda Principal Share Registrar** | Butterfield Fund Services (Bermuda) Limited<br>Rosebank Centre<br>11 Bermudiana Road<br>Pembroke HM08<br>Bermuda |
| **Branch Share Registrar in Hong Kong** | Computershare Hong Kong Investor Services Limited<br>Shops 1712 – 1716, 17th Floor<br>Hopewell Centre<br>183 Queen's Road East<br>Hong Kong |
| **Auditors** | Mazars CPA Limited<br>*Certified Public Accountants*<br>34th Floor, The Lee Gardens<br>33 Hysan Avenue, Causeway Bay<br>Hong Kong |
| **Listing Information** | The Stock Exchange of Hong Kong Limited<br>Stock Code: 812 |
| **Website** | www.tanrich-group.com |

# Passion + Patient = Over the Top!

# Directors and Senior Management

## EXECUTIVE DIRECTORS

**Dr. Yip Man Fan**, aged 54, is the chairman of the Company and the founder of the Group. Dr. Yip is also a director of certain subsidiaries of the Company, namely Tanrich Financial (Management) Limited ("TFML"), Tanrich Securities Company Limited ("TSCL"), Tanrich Investments Limited ("TIL"), Tanrich Futures Limited ("TFL") (resigned as director on 25 August 2008) and Tanrich Investment Management Limited ("TIML"). Dr. Yip has been in the securities and futures broking businesses for 26 years. He is responsible for business development, corporate strategies and policies setting of the Group. Dr. Yip was awarded a doctoral degree in commerce (Honoris Causi) from The University of West Alabama in 2007. He also received the World Outstanding Chinese Award from the United World Chinese Association in 2008. Dr. Yip was the past President of Lions Club of the Peak, Hong Kong. He also received the Melvin Jones Fellow award for dedicated Humanitarian Services of Lions Clubs International Foundation.

**Mr. Kwok Kam Hoi**, aged 56, is the deputy chairman of the Company. Mr. Kwok is also a director of every subsidiary of the Company. He joined the Group in October 1995. He is responsible for business development, corporate strategies and policies setting of the Group. Mr. Kwok actively contributed to the Group's restructuring and business growth. Before joining the Group, he was a vice president of J.P. Morgan & Co., Incorporated where he has worked for 16 years. Mr. Kwok is a graduate of the Chinese University of Hong Kong in business management. He is a member of the Hong Kong Securities Institute and a member of the financial services committee of Hong Kong Coalition of Service Industries, which is the Service Policy Think-Tank of the Hong Kong General Chamber of Commerce.

**Mr. Tsunoyama Toru**, aged 53, is an executive director of the Company and a director of certain subsidiaries of the Company, namely TFML, TIML, TIL and Tanrich Finance Limited. He joined the Group in May 1991 and is an advisor on the Japanese commodity futures activities of the Group. He has 29 years' experience in the commodity futures field. Mr. Tsunoyama is a law graduate of Kyoto Sangyo University, Japan.

**Ms. Wong, Vicky Lai Ping**, aged 48, is an executive director of the Company. Ms. Wong is also the head of the Group's human resources and administration division and has 26 years' experience in the area. She joined the Group in 1990 and is responsible for human resources and administration policies setting, corporate communications and corporate social responsibility of the Group. Ms. Wong also actively contributed to enhancing brand awareness of the Group. She holds a master's degree in business administration from the University of Leicester, U.K..

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Dr. Lam, Andy Siu Wing, JP**, aged 57, has been an independent non-executive director of the Company since October 2001. Dr. Lam is an American Certified Public Accountant, a Certified Fraud Examiner, a Chartered Secretary and a Chartered Marketer. He holds a master's degree in business administration from Oklahoma City University, USA and a doctoral degree from The University of Bolton, UK.. Dr. Lam has more than 20 years' experience in finance, corporate administration, marketing and strategic planning. He has been appointed by the Hong Kong Government as a Justice of the Peace and sits on a number of boards and committees. Dr. Lam had served as a member of the Administrative Appeals Board, Urban Services Appeals Board, Board of Review (Inland Revenue Ordinance), Action Committee Against Narcotics, an adjudicator of Immigration Tribunal and Registration of Persons Tribunal. Currently he is a member of the Hong Kong Housing Authority, a member of the Chinese Medicine Practitioner Board of the Chinese Medicine Council of Hong Kong, a member of the Appeal Board on Public Meetings and Processions and an adjudicator of the Obscene Articles Tribunal. Dr. Lam has also sat on the board of several listed companies in Hong Kong, Canada and the United States of America.

**Mr. Ma, Andrew Chiu Cheung**, aged 66, has been an independent non-executive director of the Company since April 2005. Mr. Ma is a founder and former director of Andrew Ma DFK (CPA) Limited. He is presently a director of Mayee Management Limited. He has more than 30 years' experience in accounting and finance. He received his bachelor's degree in economics from the London School of Economics and Political Science (University of London) in England. Mr. Ma is a fellow member of the Institute of Chartered Accountants in England & Wales, the Hong Kong Institute of Certified Public Accountants, The Hong Kong Institute of Directors and The Taxation Institute of Hong Kong. He is currently also an independent non-executive director of several other listed companies in Hong Kong.

**Mr. Yu King Tin**, aged 42, has been an independent non-executive director of the Company since October 2004. Mr. Yu has 18 years' experience in the areas of auditing, taxation, financial management and advisory services. Mr. Yu is an associate member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants and a member of the Society of Registered Financial Planner. He holds a bachelor's degree in law from the Peking University and a master's degree in corporate finance from the Hong Kong Polytechnic University. He is currently one of the senior management in the finance department of a conglomerate in Hong Kong and has worked in various organisations, being the Inland Revenue Department, international CPA firms and a listed company in Hong Kong.

## SENIOR MANAGEMENT

**Ms. Cheung, Fendi Chung Yee**, aged 39, is the company secretary and the qualified accountant of the Company. Ms. Cheung joined the Group in October 2005 and has more than 10 years' experience in a wide range of financial and company secretarial matters. Ms. Cheung has worked for international accountancy firms and companies listed in Hong Kong before joining the Group. Ms. Cheung holds a Bachelor's Degree of Arts in Accountancy and is a fellow member of the Association of Chartered Certified Accountant. She is also an associate member of each of the Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries.

**Mr. Chan Lee Yeung**, aged 59, is a director of TSCL, Tanrich Wealth Management Limited and Tanrich Asset Management Limited ("TAML"), and a responsible officer of TSCL and TAML. Mr. Chan has been in the securities business for 36 years. He joined the Group in July 1991.

**Mr. Chan, Andy Wai Kit**, aged 34, is a director of Tanrich Capital Limited ("TCL") and is responsible for the business development and operation of TCL. Mr. Chan is a graduate of the Chinese University of Hong Kong and holds a Bachelor's degree of Social Science in economics. Mr. Chan has over 8 years' experience in the field of corporate finance and investment banking. Prior to joining the Group, he had worked for TIS Securities (HK) Limited, Shenyin Wanguo Capital Limited and Oriental Patron Asia Limited in the area of corporate finance advisory, IPOs, restructurings and merger and acquisitions. Mr. Chan is a responsible officer of TCL.

**Mr. Chen Yu Xing**, aged 43, is a director of TCL and joined the Group in 2007. Mr. Chen has more than 15 years' management experience and expertise in the information technology industry. He joined T-Systems in 2001 as a senior executive manager in Switzerland and, starting from 2004, went on to hold several important positions in the company's international business, including deputy general manager of the division Systems Integration International, engagement manager for Asia and the U.S.A., program management officer of a global post merger integration project and director of mergers and acquisitions in China. Between 1991 and 2001, Mr. Chen worked as a senior manager in several swiss firms in the information technology industry. Mr. Chen holds a bachelor's degree of computer sciences and a degree of executive master in business administration and engineering.

**Ms. Lau, Elaine Yim Ling**, aged 46, is a director and the senior vice president of the Financial Services division of TFL. Ms. Lau joined in 1990 and has around 20 years' experience in the futures business. She holds two master's degrees in business administration from Newport University, USA and the University of South Australia respectively. She is now the candidate of a doctoral degree in business administration of Huaqiao University.

**Ms. Li Wai Kuen**, aged 48, is a director and a responsible officer of TCL. Before joining the Group in October 2002, Ms. Li worked for the Listing Division of the Stock Exchange of Hong Kong Limited, CEF Capital Limited, Yuanta Securities (Hong Kong) Company Limited and CSC Asia Limited. Ms. Li has 17 years' experience in the field of corporate finance and holds a master's degree in business administration from York University, Canada.

**Mr. Ng, Burgess Hon Ki**, aged 37, is a director of TAML, is responsible for developing wealth management services for the Group. Mr. Ng has been a Certified Financial Planner$^{cm}$ Licensee since 2002, and holds a master's degree of business administration in financial services, a postgraduate diploma in financial policy and a bachelor's degree in managerial statistics. He has over 10 years' experience in business and product development of financial planning, wealth management and investment services in various financial institutions. Prior to joining the Group, he was the Associate Partner of Wealth Management Services in Sunlife Hong Kong Limited, the First Vice President and Head of Personal Financial Planning in Fubon Bank (HK) (Formerly International Bank of Asia), and investment business development assignments in two other banks.


Ask + Action =
Stand by Me!

# Chairman's Statement

The financial market experienced severe fluctuation during the year. However, with a diversified business portfolio, the Group was able to grasp opportunities when the stock market soared and thus effectively alleviated the impact when the market slumped. The businesses of the Group continued to improve with securities broking and margin financing business and the proprietary trading segment performing especially well.

During the year, the management put great efforts into sustaining business growth by exploring new sales channels. Apart from pursuing "cross selling", the Group also actively cooperated with different organizations to hold seminars and enhanced the profile and exposure of its spokesperson to aid the projection of the Group's image as a professional financial expert.

To ensure its financial professionals being able to provide all-round advice to clients, the Group encouraged its account executives and financial planners to obtain licences for different regulated activities. It will also devote more resources in developing the sales force and supporting strength in research and analysis so as to facilitate tailoring of investment portfolios that meet the requirements of sophisticated clients.

Outside Hong Kong, we have formed strategic alliances with partners in Japan, Taiwan, Singapore, the Philippines and the PRC, which we can count on for referral of potential customers for our insurance and insurance-linked products.

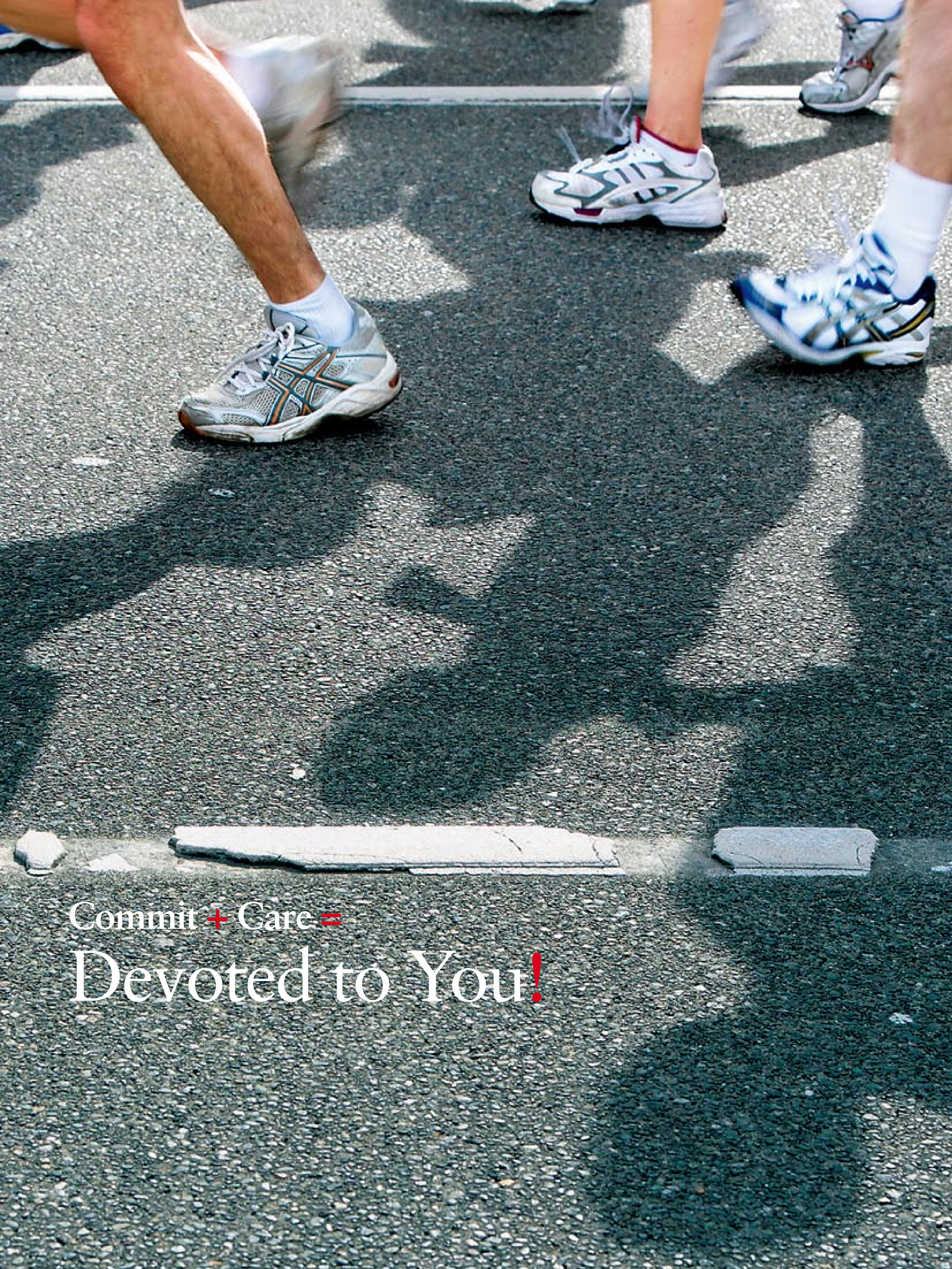
On the corporate investment side, the Group is exploring new business opportunities in different regions, particularly in China, so as to generate strong investment returns for shareholders. Some of the investment projects are underway. Via a pool of funds overseen by different fund managers, the Group will be investing in stocks including A Shares and H Shares in Hong Kong or in property projects in China.

Looking ahead, the turbulent global credit market will continue to affect the financial market. The conservative sentiment among investors is expected to make our operating environment more challenging still. However, the Group will continue to expand its revenue stream via cross selling and partnering with different organizations.

On behalf of the Board of Directors, I would like to express my deepest gratitude to our shareholders, business partners and customers for their continuous support. I would also like to thank my fellow board members and colleagues for their dedication and contribution in the past year. I look forward to a more prosperous year ahead and satisfactory returns for our shareholders.

**Yip Man Fan**
*Chairman*

Hong Kong, 24 September 2008


Commit + Care =
Devoted to You!

# Management Discussion and Analysis

## BUSINESS REVIEW

During the year ended 30 June 2008, the Group kept showing improvement in its operation. The turnover for the year was HK$114.8 million, representing an increase of 12.2% as compared with last year. The results from operation turnaround from a loss of HK$5.7 million to a profit of HK$11.2 million. The profit attributable to equity holders of the Company was HK$12.7 million. The encouraging results were mostly contributed by the securities broking and margin financing business and the proprietary trading.

In the 2nd half of 2007, the Hong Kong stock market experienced record high in trading turnover and broke a number of records. The Group also recorded satisfactory results. Following the credit market turmoil, there was a significant correction in the stock markets. Hang Seng Index dropped by half from the highest daily close of 31,638 points. The Group's performance slowed down in line with the softening economy. As a result of continuous effort in business diversification, such impact has been alleviated.

### Securities Broking and Margin Financing

The operation of securities broking and margin financing business kept its upward trend despite the softening market in early 2008. The turnover for the year was HK$38.8 million and the segment profit was HK$14.7 million which was 5.4 times to last year. Other than the utmost market condition, the strategy of "cross selling" helped strengthening the sales team for securities broking business. The Group encouraged our account executives and financial planners to obtain licenses of different regulated activities to provide all-round advices to our clients.

It could be foreseen that the operation of coming year would be challenging. With the advancement of our internet trading system, the management is confident that the securities broking and margin financing can cope with the adverse market condition.

### Wealth Management and Insurance Agency

During the year, wealth management and insurance agency business generated revenue of HK$32.3 million representing an increase of 33.0% from last year. The development of wealth management and insurance agency business is promising. Other than Japan, Taiwan and Singapore, the insurance agency division lined up strategic partners in the Philippines and the PRC for referring potential customers for insurance and insurance-linked products. As such, there was only a slight loss of HK$0.4 million.

The group invited experienced calibers for asset management business, the management is optimistic that tailor-made investment portfolios would fit the sophisticated clients' requirement better. It is also expected that the growth potential of wealth management and financial planning business to be prosperous. The Group is committed to put more resources in developing the sales force and the supporting activity in research and analysis.

### Futures Broking

As the price of commodities futures for the past year experienced high volatility, clients were more conservative in investment decision. The commission income derived from broking in futures contracts for the year was HK$24.5 million and the segment loss was HK$0.7 million. The focus of futures business will be more on corporate and high net worth clients to lessen the effect of market fluctuation.

## BUSINESS REVIEW *(Continued)*

### Corporate Finance

The corporate finance team was engaged in more non-initial public offering ("IPO") assignments that they acted as the agents of 3 placing exercises and the independent financial advisers to 2 listed companies. Hence the turnover of the period amounted to HK$4.5 million which represents more than 6 times to last year. The corporate finance team will balance the resources in IPO and non-IPO exercises to smooth the fluctuation in performance.

### Money Lending

The Group advanced new short-term loans of HK$20.3 million during the year and generated revenue of HK$1.0 million. The segment profit dropped in line to HK$0.5 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.

### Proprietary Trading

Despite turnover in proprietary trading decreased to HK$13.8 million, the segment profit increased to HK$7.6 million from HK$2.5 million of last year. The decrease in turnover is mainly because less trades were executed during the year of wide fluctuation of Hong Kong stock market. More than 70% of the profit was from dealing in futures contracts. Taking into account of the volatility of the market, the management diversified the investment portfolio by acquiring certain capital protected products.

## PROSPECTS

Financial markets remained under stress in recent months. The US Government had unveiled the rescue plan of mortgage finance companies, Fannie Mae and Freddie Mac, as an attempt to calm jittery investors. However, we believe the correction of the US residential market is far from behind us and volatility in financial markets across the world is likely to persist. Due to the weakness of market sentiment and decline in risk appetite among investors, local and the mainland stock market downturn continued in the past few months. Given the easing pressure on inflation, China may relax its monetary policy to promote economic growth in the near future, which is expected to give a boost to the equity markets. Meanwhile, the outlook of the stock market remains challenging but investment value has been emerged for long-term investors.

Change in expectations of interest rate differentials between G7 currencies led to a sharp rebound in the US dollar. However, given an accommodative monetary policy had been adopted by major powers, global inflation is expected to stay high in the coming years. As such, investment in commodities would be the right vehicle to hedge against inflation. Commodities ETF is one of the optimum investment vehicle.

During such downturn market period, clients are more interested in less risky products. The Group will introduce more alternative investments, including absolute return fund and capital protected structured notes. The Group will also put more effort in materializing the potential acquisitions in the Greater China Region.

## FINANCIAL REVIEW

### Liquidity, Financial Resources and Gearing Ratio

The Group maintained a healthy and stable financial position throughout the financial year. 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 2008, the Group had total cash and bank balances of HK$106.8 million *(2007: HK$94.0 million)*, while net current assets amounted to HK$167.7 million *(2007: HK$156.4 million)*. The current ratio as a ratio of current assets to current liabilities was 5.6 *(2007: 1.7)*. As the Group did not have any advances and borrowings at the year end date, the gearing ratio was zero *(2007: 65.4%)*. The gearing ratio represents the ratio of total borrowings to the total equity of the Group.

### Banking Facilities and Charges on Assets

At 30 June 2008, the Group had aggregate banking facilities of HK$901.0 million. The drawdown of certain banking facilities of HK$895.0 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$197.7 million. The Company has provided corporate guarantees for the facilities of HK$850.5 million granted to its subsidiaries from banks. 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 HK$50.1 million as the collateral of the banking facilities *(2007: HK$44.2 million)*. The subsidiaries also pledged bank deposits of HK$0.8 million *(2007: HK$1.0 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.

## MATERIAL INVESTMENTS AND CAPITAL COMMITMENTS

During the year, the Group acquired shares in 2 Hong Kong listed companies and 3 non-listed companies at an aggregate cost of investment of HK$20.6 million for long term capital appreciation purposes. The non-listed investments comprised 2 companies incorporated in Japan while 1 incorporated in Hong Kong. As the market condition deteriorated and the newly imposed requirements for listing on the Growth Enterprise Market of the Stock Exchange, the management considered an impairment on one of such non-listed investments for prudence sake. In the long run, these non-listed companies may go public when their financial positions and the market environment fit. The management is still confident that the return from these investments would be fruitful.

The Group realized certain listed securities with a profit of HK$5.4 million. The remaining listed securities were carried at fair value with reference to their closing market prices. As such, the reserves increased by HK$9.3 million from the appreciation.

During the year, the Group also invested in a Swiss associate which is engaged in fund management. The fund will mainly invest in property development and related projects in the Greater China Region. The Group expects the fund will be launched later 2008.

Save as the above, the Group has no committed plan on any major investments or acquisition of capital assets in the foreseeable future.

## 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 JPY 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 2008, the Group had a total margin deposit placed with the two designated futures commission merchants of JPY89.8 million and a bank deposit of JPY0.4 million, total JPY being equivalent to approximately HK$6.6 million. This amount has been properly hedged with USD/JPY foreign exchange deferred trading.

## CONTINGENT LIABILITIES

As disclosed in the 2007 annual report, the Group was engaged in arbitration proceedings, with an independent third party, concerning, inter alias, 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 2008 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 consider it is not necessary to make any provision in this regard.

A demand letter was issued by a former client of Tanrich Futures Limited ("TFL"), an independent third party, in July 2007. As stated in the demand letter together with a subsequent draft statement of claim, the former client claimed primarily that she had suffered loss and damage as a result of misrepresentations and breach of duties to advice by TFL. The Group is presently engaged in settlement discussions and the Directors are of the view that it is not possible to estimate the settlement amount at this stage.

## STAFF

As at 30 June 2008, the Group had a total of 132 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. All supporting and general staff is also entitled to the year-end and the performance discretionary bonuses. 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.

The Group provides training programs for the staff to enhance their skills and products, regulatory and compliance knowledge. For the year under audit, the Group has conducted in-house training of 15 hours qualified for claiming Continuous Professional Training hours for the licensed persons.

# Corporate Governance Report

## COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES

The Company believes good corporate governance practices improve transparency and enhance the shareholders' value. The Company has complied with all the provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited throughout the financial year except for Provision A.2.1 of the Code explained below.

## THE BOARD

### The Board Composition

The Board is responsible for directing the strategic objectives of the Group and overseeing the management of the business. The Directors are responsible for leadership and control of the Group.

During the year under audit, the Board comprised 7 Directors, including 4 Executive Directors and 3 Independent Non-executive Directors ("INEDs"), namely:

*Executive Directors:*
Dr. Yip Man Fan *(Chairman)*
Mr. Kwok Kam Hoi *(Deputy Chairman)*
Mr. Tsunoyama Toru
Ms. Wong, Vicky Lai Ping

*INEDs:*
Dr. Lam, Andy Siu Wing, JP
Mr. Ma, Andrew Chiu Cheung
Mr. Yu King Tin

The Board has a balance of skills and experience and details of the biography of each Director has been disclosed under the section "Directors and Senior Management". Each INED was appointed for a period of 12-18 months and at least one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation at least once every three years. The Company has arranged appropriate Directors and Officers' Insurance for their personal liability in their capacity as Directors and officers of the Company.

### Chairman and Chief Executive

Provision A.2.1 of the Code requires the management of the Board and the day-to-day management of business be performed by separate individuals.

Under the current structure, the Chairman is responsible for the management of the Board while the day-to-day management of business is performed by the Management Committee. There is no office of chief executive officer in the Group. Different functions of the operations are now managed by respective members of the Board and senior management of the Group. The Board is of the view that proper segregation of duties and balance of power and authority are maintained and there is clear division of responsibilities at the board level.

The Management Committee is composed of the 4 Executive Directors and the Financial Controller and is responsible for the establishment, implementation and review of strategies and policies to achieve the long-term and short-term business goals of the Group. The Management Committee meets regularly and is accountable to the Board for the performance of all businesses.

## THE BOARD *(Continued)*

### Chairman and Chief Executive *(Continued)*

The duties and responsibilities of each Executive Director and the senior management are clearly established in writing. The Board opts to maintain such corporate structure to enhance the communication and the decision making efficiency. The Executive Directors, without the Chairman, and department heads also meet monthly to discuss and determine the business and operational issues.

### Independence of INEDs

There are no relationship among the Board members. The Company has received annual written confirmation from each INED of his independence to the Group. The Company is in the opinion that all the INEDs were acting independently throughout the financial year.

### Model Code of the Listing Rules

The Company has adopted the Model Code for Securities Transactions by Directors of the Listed Issuers set out in Appendix 10 (the "Model Code") to the Listing Rules at any time during the year. The Company has made specific enquiry with each Director and was confirmed that all Directors have complied with the required standard set out in the Model Code throughout the financial year.

### Nomination of Directors

The Company does not have a nomination committee. The Board is responsible for all matters relating to the appointment of Directors, either to fill a casual vacancy or as an addition to the existing Board. The Board keeps reviewing the existing size and efficiency of the Board and identifies individuals suitably qualified in terms of skill, knowledge and experience to become members of the Board when appropriate. The Board considers and deals with these matters in meeting and not by way of circulation of written resolution. Any Director so appointed shall hold office only until the next annual general meeting ("AGM") and shall then be re-elected at that meeting in accordance with the Bye-laws of the Company.

### Board Meetings

The Board meets regularly with intervals of not more than 4 months for discussing and determining the strategies of the Group, setting directions and monitoring the performance of the Group. The Company Secretary is responsible to fix the meeting time which fits most of the Directors' schedules. Notice of not less than 14 days are given to all Directors in writing for all regular meetings. Each Director can access to the advices and services of the Company Secretary and is invited to include any matters in the agenda of the regular meetings. Agenda and materials for discussion in the meetings are circulated to all Directors at least 3 days prior to the date of the meetings.

Directors, who have declared to have a conflict of interest in the proposed transactions or issues to be discussed, would not be counted in the quorum of meeting and would abstain from voting on the relevant resolution.

Senior management may be invited to attend the meetings to make presentations and answer the Board's enquiries. All draft and finalised minutes of each meeting are sent to all Directors for comment within reasonable time after the meeting has been held.

During the year, there were 4 regular board meetings held and the attendance of each Director is listed under the heading "Attendance Summary" below on a named basis.

## AUDIT COMMITTEE

The Audit Committee comprises 3 INEDs, namely:

Dr. Lam, Andy Siu Wing, JP *(Chairman)*
Mr. Ma, Andrew Chiu Cheung
Mr. Yu King Tin

The Board adopted clear terms of reference including authority and duties of the committee. The duties of the Audit Committee include, inter alias, monitoring the integrity of financial statements and the accounting policies and practices, making recommendation to the Board on the appointment, re-appointment and removal of external auditors, reviewing the Company's financial controls, internal controls and risk management systems. All members of the Audit Committee are qualified accountants with extensive experience in financial management. The Audit Committee meets at least twice a year to discuss and review the internal control, the financial information and relevant matters.

During the year, the Audit Committee has reviewed the review/audit planning memorandums and the results for the interim period and the financial year ended 30 June 2008. The Audit Committee has also reviewed and followed up the findings and recommendations of the internal controls and management letter points made by our internal audit and the external auditors respectively.

The Audit Committee held 4 meetings during the year and the attendance of each member is listed under the heading "Attendance Summary" below on a named basis.

## REMUNERATION COMMITTEE

The majority members of the Remuneration Committee are the INEDs. It is composed of 3 INEDs and 2 Executive Directors, namely:

*INEDs:*
Mr. Ma, Andrew Chiu Cheung *(Chairman)*
Dr. Lam, Andy Siu Wing, JP
Mr. Yu King Tin

*Executive Directors:*
Mr. Tsunoyama Toru
Ms. Wong, Vicky Lai Ping

The responsibilities and authorities of the Remuneration Committee is clearly stated in its terms of reference, including but not limited to recommendations to the Board on the Company's policy and structure for all remuneration of the Directors and the senior management and review and approval of the compensation package to Executive Directors and the senior management. The Board together with the Remuneration Committee monitor the performance of the Executive Directors and the senior management. Such division of responsibilities can ensure a balance of power. The Remuneration Committee shall meet at least once a year.

During the financial year, the Remuneration Committee has reviewed the remuneration package of all Directors and the senior management and proposed adjustments on the emoluments of certain Directors and the senior management with reference to their performance, duties and responsibilities. The Chairman was consulted in the meeting on their proposals. Detail remuneration of each Director could be referred to note 6 to the financial statements.

The Remuneration Committee held 1 meeting in the year and the attendance of each member is listed under the heading "Attendance Summary" below on a named basis.

## RISK AND CREDIT CONTROL COMMITTEE ("RCCC")

RCCC is composed of certain directors of the Company and its subsidiaries, the Head of Operations, the Associate Director of Legal and Compliance Department and the Financial Controller. RCCC is responsible for establishing and reviewing credit policies and procedures to minimize the systematic and non-systematic credit and financial risks of the Group. RCCC is also responsible for assessing the risk of investments of non-daily business. RCCC meets monthly, the least, and reports to the Board from time to time.

## ATTENDANCE SUMMARY

The following table shows the attendance of each individual member of the Board and the respective board committees at the Board and the respective board committee meetings held during the financial year:

| | Attendance/Number of meetings held | | | |
|---|---|---|---|---|
| Name of members of the Board/ the respective Board Committees | Board meeting | Audit Committee meeting | Remuneration Committee meeting | RCCC meeting |
| *Executive Directors:* | | | | |
| Yip Man Fan *(Chairman)* | 3/4 | N/A | N/A | N/A |
| Kwok Kam Hoi *(Deputy Chairman)* | 4/4 | N/A | N/A | 10/13 |
| Tsunoyama Toru | 4/4 | N/A | 1/1 | 10/13 |
| Wong, Vicky Lai Ping | 4/4 | N/A | 1/1 | N/A |
| *INEDs:* | | | | |
| Lam, Andy Siu Wing, JP | 4/4 | 4/4 | 1/1 | N/A |
| Ma, Andrew Chiu Cheung | 4/4 | 4/4 | 1/1 | N/A |
| Yu King Tin | 4/4 | 4/4 | 1/1 | N/A |

## CORPORATE COMMUNICATIONS

For the last year, the Company worked hard to improve the communications with its shareholders ("Shareholders") and the general public with an aim to improve the transparency of the business development and provide them with more information to appraise the position of the Group.

Directors, including Executive Directors and INEDs, were present at general meetings to answer questions from Shareholders. The procedures for and the rights of Shareholders to demand a poll are fully stated in Shareholders' circulars and explained by the Company Secretary before the commencement of a general meeting.

The senior management conducted luncheon with the media quarterly. During the luncheons, the media had opportunities to discuss with our senior management face to face for new developments of the markets and of the Group. Our spokespersons also appeared in various media, including seminars, newspapers, radio, magazines and TV programs, to explain the nature of different investment products to let the investors determine the most appropriate investment strategies.

## SOCIAL RESPONSIBILITY

The Company strives to establish a caring spirit and continuously demonstrates good corporate citizenship. By satisfying the 3 criteria of the scheme established by The Hong Kong Council of Social Service, the Company was awarded the Caring Company Logo during the year 2007-2008.

The Group and its staff have been very supportive to The Community Chest's Walk for Millions program every year. On 6 January 2008, staff of the Company participated in the HK & Kowloon Walk with total distance of around 10 kilometres. The Community Chest will allocate over HK$39 million of the funds raised in this programme to the social welfare agencies which provide "rehabilitation and aftercare services" to those in need.

Situated in a distant suburban area in the New Territories, with high transportation costs to the central district out of proportion to the average household income, the unemployment rate of residents in Tin Shui Wai is high. Collaborated with Hong Kong Confederation of Trade Unions Training Centre, the Group arranged its staff to tap into Tin Shui Wai in April this year introducing to the residents the latest development of the financial industry and the prospect of working in it. The Group also provided training and working opportunity for suitable individuals.

In the hope of devoting our greatest efforts to the victims in the massive earthquake in Sichuan, PRC in May 2008, the Group initiated a donation campaign amongst its staff and we raised over HK$240,000 of generous donations. All the donations were transferred to the "Hong Kong Red Cross China Relief Fund" in supporting the victims' relief, reconstruction and disaster preparedness operation in the affected area.

The Company participated in the Hong Kong Caritas Computer Recycle Project, and donated used computers and parts for refurbishment. The scheme helps protect the environment by prolonging the life of computers and parts, as well as helping the deprived people and families to overcome digital divide.

## INTERNAL CONTROL

Internal audit function was assumed by the Legal and Compliance Department to review the system of internal control including financial, operational and compliance controls. Internal audit will be performed on the Group's major businesses on a rotation basis. During the year, a review of the effectiveness of the Group's internal control system covering all material controls and risk management functions has been conducted in accordance with the requirements of the Code. An internal audit report on futures broking business has also been reviewed and considered by the Audit Committee and recommendations have been made to the Board.

## EXTERNAL AUDITORS

The Board acknowledges the responsibility for preparing the accounts which gives a true and fair view. In preparing the accounts which give a true and fair view, appropriate accounting policies are selected and applied consistently and judgment and estimates were made prudently and reasonably on a going concern basis. It is the responsibility of the external auditors to form an independent opinion to be reported to Shareholders.

The re-appointment of Mazars CPA Limited as the external auditor of the Group were approved by Shareholders at the 2007 AGM. The fee for audit service for the year ended 30 June 2008 was HK$880,000. No services have been rendered by Mazars CPA Limited other than the statutory audits during the financial year.

By order of the Board
**Kwok Kam Hoi**
*Deputy Chairman*

Hong Kong, 24 September 2008

# Directors' Report

The Directors submit their report together with the audited financial statements of the Company and its subsidiaries for the year ended 30 June 2008.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in note 13 to the financial statements.

An analysis of the Group's performance for the year by business segment is set out in note 3 to the financial statements. The activities of the Group are mainly carried out in Hong Kong.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 30.

The Directors recommended the payment of a final dividend of 1 HK cent *(2007: 1 HK cent)* per share for the financial year ended 30 June 2008, totaling HK$5,626,000 *(2007: HK$5,593,000)*, to its shareholders ("Shareholders") whose names appear on the register of members at the close of business on Monday, 10 November 2008 subject to the final approval at the annual general meeting to be held on Monday, 10 November 2008 ("AGM"). The dividends are expected to be paid on or before Monday, 24 November 2008.

## RESERVES

Movements in reserves of the Group and of the Company during the year are set out in note 28 to the financial statements.

As at 30 June 2008, the reserves of the Company available for distribution to Shareholders amounted to HK$81,727,000 *(2007: HK$93,391,000)*.

## DONATIONS

During the year, the Group made charitable and other donations amounted to HK$110,000 *(2007: HK$49,480)*.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 11 to the financial statements.

## SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 26 to the financial statements.

## FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 78.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares during the year.

## DIRECTORS

The Directors during the year and up to the date of this report are:

*Executive Directors*
Dr. Yip Man Fan *(Chairman)*
Mr. Kwok Kam Hoi *(Deputy Chairman)*
Mr. Tsunoyama Toru
Ms. Wong, Vicky Lai Ping

*Independent Non-executive Directors*
Dr. Lam, Andy Siu Wing, JP
Mr. Ma, Andrew Chiu Cheung
Mr. Yu King Tin

In accordance with Bye-law 87 of the Company, Mr. Kwok Kam Hoi, Ms. Wong, Vicky Lai Ping and Mr. Yu King Tin will, retire by rotation and, being eligible, offer themselves for re-election at the AGM.

## DIRECTORS' SERVICE CONTRACTS

None of the directors has entered into or is proposing to enter into a service contract with the Company or its subsidiaries which is not determinable within one year without payment of compensation, other than statutory compensation.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of Directors and Senior Management are set out in the section "Directors and Senior Management" of this report.

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

During the year ended 30 June 2008, the Group had connected transactions as defined under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") ("Listing Rules") but are exempt from all the reporting, announcement and independent shareholders' approval requirements under Chapter 14A.31 of the Listing Rules. Details of these transactions are set out in note 30 to the financial statements.

## RELATED PARTY TRANSACTIONS

The Group also entered into certain transactions with parties regarded as "related parties" under the applicable accounting standards. Details of these transactions are set out in note 30 to the financial statements.

Save as the above, no contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## MANAGEMENT CONTRACTS

No contracts of significance concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2008, the interests of the Directors of the Company and their respective associates in the shares and underlying shares of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO") or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Listing Rules were as follows:

### Interests in Long Positions in the Shares and Underlying Shares of the Company

| | Number of ordinary shares held | | | No. of | |
|---|---|---|---|---|---|
| | Personal interests | Family interests | Other interests | underlying shares *(Note 3)* | Total |
| Yip Man Fan | 6,742,000 | 15,000,000 *(Note 1)* | 240,000,000 *(Note 2)* | – | 261,742,000 |
| Kwok Kam Hoi | 8,000,000 | – | – | 4,000,000 | 12,000,000 |
| Tsunoyama Toru | 50,680,000 | – | – | 1,720,000 | 52,400,000 |
| Wong, Vicky Lai Ping | 880,000 | – | – | 3,140,000 | 4,020,000 |
| Lam, Andy Siu Wing | – | – | – | 400,000 | 400,000 |
| Ma, Andrew Chiu Cheung | – | – | – | 400,000 | 400,000 |
| Yu King Tin | – | – | – | 400,000 | 400,000 |

*Notes:*

1. Shares are held by Ms. Tang Yuk Lan, the spouse of Dr. Yip Man Fan.
2. Shares are held by discretionary trusts of which Dr. Yip Man Fan and members of his family are beneficiaries.
3. These interests represent the interests in the underlying shares in respect of share options granted by the Company to the Directors of the Company as beneficial owners.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY *(Continued)*

Save as disclosed above, as at 30 June 2008, none of the Directors, the chief executives or their respective associates had any personal, family, corporate or other interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had been entered in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from disclosed in the "Share Option Schemes" below and in note 27 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate granted to any Directors or their respective spouse or children under the age of 18, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, their respective spouse or children under the age of 18 to acquire such rights in any other body corporate.

## SHARE OPTION SCHEMES

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

The Pre-Listing Scheme was adopted on 7 January 2002. The summary of the Pre-Listing Scheme is as follows:

1. The purpose of the Pre-Listing Scheme is to enable the Company to grant share options to eligible persons as an incentive or reward for their contributions to the Group.

2. The participants of the Pre-Listing Scheme include any employee, executive or non-executive director or bona fide consultant of the Company or any of its subsidiaries.

3. The total number of shares issued and to be issued upon exercise of the options granted and to be granted to each participant in any 12-month period up to the date of the latest grant shall not exceed 1% of the issued share capital of the Company in issue, unless shareholders' approval has been obtained in general meeting.

4. Share options may be exercised in accordance with the terms of the Pre-Listing Scheme at any time during a period commencing one year from the date of grant of the option and expiring on the earlier of the last day of (i) a ten year period from the date of grant of the option or (ii) ten years from the adoption date.

5. A non-refundable consideration of HK$1 for the grant of each lot of options is required to be paid by each grantee upon acceptance of the option.

6. The subscription price of the shares shall be determined by the Board of Directors, but shall not be less than the higher of (i) the closing price of each share as stated in the Stock Exchange daily quotation sheet on the date of grant of the option; and (ii) the average of the closing prices per share as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the option.

## SHARE OPTION SCHEMES *(Continued)*

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

7. The Pre-Listing Scheme will expire on the last day of ten years from the adoption date.

8. The total number of shares issueable upon exercise of the outstanding options is 8,520,000, which represents 1.5% of the existing issued share capital of the Company as at the year end date.

Details of the share options outstanding as at 30 June 2008 which have been granted under the Pre-Listing Scheme are as follows:

| | Number of shares issuable under the options | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | As at 1 July 2007 | Exercised during the year | Lapsed during the year *(Note 6)* | As at 30 June 2008 | Subscription price HK$ | Grant date | Exercisable from | Exercisable until |
| Directors: | | | | | | | | |
| Kwok Kam Hoi | 4,000,000 | – | – | 4,000,000 | 0.36 | 22 February 2002 | 22 February 2003 | 7 January 2012 |
| Tsunoyama Toru | 1,720,000 | – | – | 1,720,000 | 0.36 | 22 February 2002 | 22 February 2003 | 7 January 2012 |
| Wong, Vicky | 600,000 | – | – | 600,000 | 0.36 | 22 February 2002 | 22 February 2003 | 7 January 2012 |
| Lai Ping | 2,000,000 | 1,000,000 | – | 1,000,000 | 0.325 | 3 July 2006 | 3 July 2007 | 7 January 2012 |
| Continuous contract employees | 1,820,000 | 1,820,000 | – | – | 0.36 | 22 February 2002 | 22 February 2003 | 7 January 2012 |
| | 1,000,000 | 1,000,000 | – | – | 0.325 | 3 July 2006 | 3 July 2007 | 7 January 2012 |
| Bona fide consultants of the Group | 280,000 | – | 280,000 | – | 0.36 | 22 February 2002 | 22 February 2003 | 7 January 2012 |
| | 1,492,000 | 292,000 | – | 1,200,000 | 0.335 | 4 January 2007 | 4 January 2008 | 7 January 2012 |
| **Total** | **12,912,000** | **4,112,000** | **280,000** | **8,520,000** | | | | |

*Notes:*

1. The subscription price for options granted before 1 August 2007, the closing price referred to in notes 2 to 4 below and the outstanding options as at 1 July 2007 have been adjusted to take into account the effect of the bonus issue as approved by the Shareholders on 1 August 2007, which became unconditional on 7 August 2007 ("Bonus Issue").

2. The closing price immediately before the date on which the option granted on 22 February 2002 was HK$0.325.

3. The closing price immediately before the date on which the option granted on 3 July 2006 was HK$0.325.

4. The closing price immediately before the date on which the option granted on 4 January 2007 was HK$0.33.

5. The weighted average closing price immediately before the dates on which the options were exercised was HK$1.23.

6. Share options lapsed in accordance with the terms and conditions of the Pre-Listing Scheme following the resignation of employees and the termination of consultancy services.

## SHARE OPTION SCHEMES *(Continued)*

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

The Post-Listing Scheme was adopted on 30 January 2004. The summary of the Post-Listing Scheme is as below:

1. The purposes of the Post-Listing Scheme are to attract and retain the best available personnel, to provide additional incentive to employees, directors, consultants, business associates and advisors and to promote the success of the Group.

2. The participants of the Post-Listing Scheme include all employees, executive or non-executive directors, consultants, business associates and advisors of the Company or any of its subsidiaries.

3. The total number of shares issued and to be issued upon exercise of the options granted and to be granted to each participant in any 12-month period up to the date of the latest grant shall not exceed 1% of the issued share capital of the Company in issue, unless shareholders' approval has been obtained in general meeting.

4. Share options may be exercised in accordance with the terms of the Post-Listing Scheme at any time during a period not less than one year and not more than ten years from the date of grant of the relevant option.

5. No consideration for the grant of an option is required to be paid upon acceptance of the option.

6. The exercise price for the shares shall be determined by the Board of Directors, but shall not be less than the highest of (i) the closing price of each share as stated in the Stock Exchange daily quotation sheet on the date of grant of the option; (ii) the average of the closing prices per share as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the option; and (iii) the nominal value of the shares.

7. The Post-Listing Scheme will expire on 29 January 2014.

8. The total number of shares issuable upon exercise of outstanding options is 16,252,000, representing 2.89% of the existing issued share capital of the Company as at the year end date.

## SHARE OPTION SCHEMES *(Continued)*

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

Details of the share options outstanding as at 30 June 2008 which have been granted under the Post-Listing Scheme are as follows:

| | Number of shares issuable under the options | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | As at 1 July 2007 | Granted during the year | Exercised during the year | Lapsed during the year *(Note 8)* | As at 30 June 2008 | Exercise price HK$ | Grant date | Exercisable from | Exercisable until |
| Directors: | | | | | | | | | |
| Wong, Vicky | 540,000 | – | – | – | 540,000 | 0.335 | 27 April 2004 | 27 April 2005 | 26 April 2014 |
| Lai Ping | 1,000,000 | – | – | – | 1,000,000 | 0.335 | 4 January 2007 | 4 January 2008 | 3 January 2017 |
| Lam, Andy Siu Wing | 400,000 | – | – | – | 400,000 | 0.92 | 1 June 2007 | 1 June 2008 | 31 May 2017 |
| Ma, Andrew Chiu Cheung | 400,000 | – | – | – | 400,000 | 0.92 | 1 June 2007 | 1 June 2008 | 31 May 2017 |
| Yu King Tin | 400,000 | – | – | – | 400,000 | 0.92 | 1 June 2007 | 1 June 2008 | 31 May 2017 |
| Continuous | 844,000 | – | 752,000 | – | 92,000 | 0.335 | 27 April 2004 | 27 April 2005 | 26 April 2014 |
| contract | 10,600,000 | – | 2,000,000 | – | 8,600,000 | 0.335 | 4 January 2007 | 4 January 2008 | 3 January 2017 |
| employees | – | 600,000 | – | 80,000 | 520,000 | 0.78 | 6 November 2007 | 6 November 2008 | 5 November 2017 |
| Consultants/ | 302,000 | – | 2,000 | – | 300,000 | 0.335 | 27 April 2004 | 27 April 2005 | 26 April 2014 |
| Advisors | 2,000,000 | – | – | – | 2,000,000 | 0.335 | 4 January 2007 | 4 January 2008 | 3 January 2017 |
| | – | 14,000,000 | – | 12,000,000 | 2,000,000 | 1.5 | 14 August 2007 | 14 August 2008 | 13 August 2017 |
| **Total** | **16,486,000** | **14,600,000** | **2,754,000** | **12,080,000** | **16,252,000** | | | | |

*Notes:*

1. The exercise price for options granted before 1 August 2007, the closing price referred to in notes 2 to 4 below and the outstanding options as at 1 July 2007 have been adjusted to take into account the effect of the Bonus Issue.
2. The closing price immediately before the date on which the option granted on 27 April 2004 was HK$0.335.
3. The closing price immediately before the date on which the option granted on 4 January 2007 was HK$0.33.
4. The closing price immediately before the date on which the options granted on 1 June 2007 was HK$0.975.
5. The closing price immediately before the date on which the option granted on 14 August 2007 was HK$1.52.
6. The closing price immediately before the date on which the option granted on 6 November 2007 was HK$0.77.
7. The weighted average closing price immediately before the dates on which the options were exercised was HK$0.88.
8. Share options had lapsed in accordance with the terms and conditions of the Post-Listing Scheme following the resignation of employees and the termination of consultancy services.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2008, the persons (other than Directors and chief executives of the Company whose interests or short positions have been disclosed above) who had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO are as follows:

| Name of Shareholders | *Note* | Number of ordinary shares held | Percentage of holding |
|---|---|---|---|
| Aceland Holdings Ltd. | 1, 2 & 4 | 240,000,000 | 42.66% |
| Redwood Pacific Limited | 2 & 4 | 240,000,000 | 42.66% |
| HSBC International Trustee Limited | 3 & 4 | 240,000,000 | 42.66% |
| Tang Yuk Lan | 5 | 261,742,000 | 46.52% |
| Keywise Greater China Master Fund | 6 & 7 | 60,000,000 | 10.66% |
| Keywise Capital Management (HK) Limited | 6 & 7 | 60,000,000 | 10.66% |
| UBS AG | 7 | 60,000,000 | 10.66% |

*Notes:*

1. Aceland Holdings Ltd. is the trustee of The Yip Unit Trust, which holds 42.66% of the shareholdings of the Company.

2. Redwood Pacific Limited is the trustee of The Yip Man Fan Unit Trust, which holds 100% of those units in The Yip Unit Trust.

3. HSBC International Trustee Limited is the trustee of The Yip Man Fan Family Trust, which holds 99.99% of the units in The Yip Man Fan Unit Trust.

4. Under Part XV of the SFO, each of Redwood Pacific Limited, and HSBC International Trustee Limited is taken to have an interest in the same 240,000,000 ordinary shares held by Aceland Holdings Ltd., on trust for The Yip Unit Trust. These shares therefore duplicate each other.

5. Ms. Tang Yuk Lan is the spouse of Dr. Yip Man Fan. Under Part XV of the SFO, each of Dr. Yip Man Fan and Ms. Tang Yuk Lan is taken to have an interest in the shares held by each other. These shares therefore duplicate each other.

6. Keywise Greater China Master Fund ("Keywise") is the beneficial owner of the 60,000,000 shares. Keywise Capital Management (HK) Limited is the investment advisor of Keywise.

7. UBS AG ('UBS") is the Prime Broker of Keywise. UBS has the right to rehypothecate the shares held on behalf of Keywise. Under Part XV of the SFO, each of Keywise, Keywise Capital Management (HK) Limited and UBS is deemed to have an interest in the same 60,000,000 shares held by Keywise. These reporting of interests therefore duplicate each other.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda that would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders.

## MAJOR CUSTOMERS AND SUPPLIERS

Income from the Group's five largest customers in aggregate contributed to less than 30% of the Group's total income during the year.

Contracts with the five largest suppliers of the Group combined by value which are not of a capital nature, contributed to less than 30% in value of suppliers purchased during the year.

## PUBLIC FLOAT

As at the date of this report, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Company's Directors.

## AUDITORS

The financial statements for the financial year ended 30 June 2006 was audited by Moores Rowland Mazars.

The financial statements for the financial years ended 30 June 2007 and 30 June 2008 have been audited by Mazars CPA Limited, who retire and, being eligible, offer themselves for re-appointment in the forthcoming annual general meeting.

By order of the Board
**Kwok Kam Hoi**
*Deputy Chairman*

Hong Kong, 24 September 2008

# Independent Auditor's Report

To the members of
**Tanrich Financial Holdings Limited**
*(incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of Tanrich Financial Holdings Limited ("the Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 30 to 77, which comprise the consolidated and the Company's balance sheet as at 30 June 2008, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting polices used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

# Independent Auditor's Report

## OPINION

In our opinion the consolidated financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30 June 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Mazars CPA Limited**
*Certified Public Accountants*
Hong Kong, 24 September 2008

**Fung Shiu Hang**
Practising Certificate number: P04793

# Consolidated Income Statement

*Year ended 30 June 2008*

| | Note | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| **Turnover and Revenue** | 2 | **114,809** | 102,364 |
| Other revenue | 4 | **19,604** | 27,202 |
| Employee benefit expenses | 5 | **(53,332)** | (42,514) |
| Depreciation and amortisation | | **(1,325)** | (2,441) |
| Cost of investments held for trading sold | | **(5,771)** | (18,164) |
| Brokerage and agency commission | | **(29,710)** | (24,598) |
| Other operating expenses | | **(29,191)** | (25,378) |
| Finance costs | 5 | **(2,844)** | (2,463) |
| Share of results of an associate | 14 | **(71)** | – |
| **Profit before taxation** | 5 | **12,169** | 14,008 |
| Taxation | 7 | **495** | (30) |
| **Profit for the year attributable to equity holders of the Company** | 8 | **12,664** | 13,978 |
| **Dividends** | 9 | **5,626** | 5,593 |
| **Earnings per share** | 10 | | |
| – Basic (HK cents) | | **2.3** | 3.4 |
| – Diluted (HK cents) | | **2.2** | 3.3 |

# Consolidated Statement of Changes in Equity

*Year ended 30 June 2008*

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| **Total equity at 1 July** | **238,526** | 151,461 |
| Change in fair value of available-for-sale financial assets | **14,692** | 52,573 |
| Realisation upon disposal of available-for-sale financial assets | **(5,362)** | (19,744) |
| Exchange difference on translation of financial statements of an overseas associate | **421** | – |
| Profit for the year | **12,664** | 13,978 |
| **Total recognised income and expense attributable to equity holders of the Company** | **22,415** | 46,807 |
| Issue of shares under share option schemes | **2,326** | 16,344 |
| Issue of new shares, net of expenses | **33,620** | 23,914 |
| Recognition of equity-settled share-based payments | **536** | – |
| Dividend paid during the year | **(5,593)** | – |
| **Total equity at 30 June** | **291,830** | 238,526 |

# Consolidated Balance Sheet

*At 30 June 2008*

| | Note | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 11 | **717** | 1,483 |
| Intangible assets | 12 | **290** | 350 |
| Interests in an associate | 14 | **2,860** | – |
| Available-for-sale financial assets | 15 | **102,540** | 78,172 |
| Other financial assets | 16 | **15,576** | – |
| Other non-current assets | 17 | **2,000** | 2,000 |
| Loans and advances | 18 | **186** | 106 |
| | | **124,169** | 82,111 |
| **Current assets** | | | |
| Loans and advances | 18 | **233** | 5,149 |
| Investments held for trading | 19 | **8,435** | 7,916 |
| Other financial assets | 16 | **7,803** | – |
| Accounts receivable | 20 | **74,464** | 264,341 |
| Other receivables | 21 | **6,170** | 22,433 |
| Tax prepaid | | **23** | – |
| Pledged deposits | 22 | **836** | 1,039 |
| Cash and bank balances | 22 | **105,924** | 92,983 |
| | | **203,888** | 393,861 |
| **Current liabilities** | | | |
| Interest-bearing borrowings | 23 | **–** | 156,000 |
| Accounts payable | 24 | **22,360** | 51,734 |
| Other payables and accrued charges | | **13,867** | 12,506 |
| Tax payable | | **–** | 17,206 |
| | | **36,227** | 237,446 |
| **Net current assets** | | **167,661** | 156,415 |
| **NET ASSETS** | | **291,830** | 238,526 |
| **Capital and reserves** | | | |
| Share capital | 26 | **56,263** | 26,438 |
| Reserves | 28 | **235,567** | 212,088 |
| **TOTAL EQUITY** | | **291,830** | 238,526 |

Approved and authorised for issue by the Board of Directors on 24 September 2008.

**Kwok Kam Hoi**
*Director*

**Tsunoyama Toru**
*Director*

# Balance Sheet

*At 30 June 2008*

| | Note | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Interests in subsidiaries | 13 | **123,123** | 146,708 |
| Available-for-sale financial assets | 15 | **65,151** | 63,263 |
| Other financial assets | 16 | **15,576** | – |
| | | **203,850** | 209,971 |
| **Current assets** | | | |
| Investments held for trading | 19 | **8,435** | 7,916 |
| Other financial assets | 16 | **7,803** | – |
| Other receivables | 21 | **105** | 94 |
| Cash and bank balances | | **34,986** | 6,913 |
| | | **51,329** | 14,923 |
| **Current liabilities** | | | |
| Other payables and accrued charges | | **4,045** | 465 |
| **Net current assets** | | **47,284** | 14,458 |
| **NET ASSETS** | | **251,134** | 224,429 |
| **Capital and reserves** | | | |
| Share capital | 26 | **56,263** | 26,438 |
| Reserves | 28 | **194,871** | 197,991 |
| **TOTAL EQUITY** | | **251,134** | 224,429 |

Approved and authorised for issue by the Board of Directors on 24 September 2008.

**Kwok Kam Hoi**
*Director*

**Tsunoyama Toru**
*Director*

# Consolidated Cash Flow Statement

*Year ended 30 June 2008*

| | Note | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Profit before taxation | | **12,169** | 14,008 |
| Depreciation and amortisation | | **1,325** | 2,441 |
| Provision for impairment loss on available-for-sale financial assets | | **4,300** | – |
| Loss on disposal of property, plant and equipment | | **–** | 209 |
| Equity-settled share-based payment expenses | | **536** | – |
| Share of results of an associate | | **71** | – |
| Interest income | | **(5,124)** | (2,440) |
| Interest expenses | | **2,844** | 2,463 |
| Dividend income | | **(3,723)** | (1,930) |
| Gain on disposal of available-for-sale financial assets | | **(5,362)** | (19,673) |
| (Reversal of) Allowance for bad and doubtful debts, net | | **(1,964)** | 2,065 |
| Changes in working capital: | | | |
| Loans and advances | | **4,837** | (16) |
| Investments held for trading | | **(519)** | (4,416) |
| Accounts receivable | | **191,841** | (216,326) |
| Other receivables | | **(851)** | 1,072 |
| (Repayment of) Margin financing for IPO subscriptions | | **(156,000)** | 156,000 |
| Accounts payable | | **(29,374)** | 28,996 |
| Other payables and accrued charges | | **1,361** | 3,041 |
| Cash generated from (used in) operating activities | | **16,367** | (34,506) |
| Hong Kong Profits Tax paid | | **(99)** | – |
| Refund of Tax Reserve Certificate | | **479** | – |
| Interest received | | **5,124** | 2,440 |
| Interest paid | | **(2,844)** | (2,463) |
| **Net cash generated from (used in) operating activities** | | **19,027** | (34,529) |
| **INVESTING ACTIVITIES** | | | |
| Dividends received | | **3,723** | 1,930 |
| Acquisition of interests in an associate | | **(2,511)** | – |
| Proceeds from disposal of available-for-sale financial assets | | **6,576** | 19,673 |
| Purchase of available-for-sale financial assets | | **(20,552)** | (88) |
| Purchase of other financial assets | | **(23,379)** | – |
| Purchase of property, plant and equipment | | **(499)** | (372) |
| **Net cash (used in) generated from investing activities** | | **(36,642)** | 21,143 |
| **FINANCING ACTIVITIES** | | | |
| Issue of share capital, net of expenses | | **35,946** | 40,258 |
| Dividends paid | | **(5,593)** | – |
| **Net cash generated from financing activities** | | **30,353** | 40,258 |
| **Net increase in cash and cash equivalents** | | **12,738** | 26,872 |
| **Cash and cash equivalents at beginning of year** | | **94,022** | 67,150 |
| **Cash and cash equivalents at end of year** | 22 | **106,760** | 94,022 |

## MAJOR NON-CASH TRANSACTION

During the year, the Group utilised Tax Reserve Certificates of HK$16,635,000 *(2007: Nil)* to settle its tax payables.

# Notes to the Financial Statements

*Year ended 30 June 2008*

## 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. PRINCIPAL ACCOUNTING POLICIES

### Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable disclosure requirements under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and the Hong Kong Companies Ordinance.

The accounting policies adopted in the current year are consistent with those of the previous year except for the adoption of the following new/revised HKFRS that are effective from the current year.

***HKAS 1 (Amendment): Capital disclosures***

The amendment requires financial statements to provide additional disclosures in relation to the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 33 to the financial statements.

***HKFRS 7: Financial instruments: Disclosures***

*HKFRS 7* superseded *HKAS 30 Disclosures in the financial statements of banks and similar financial institution* and incorporated all the disclosure requirements previously in *HKAS 32*, while the presentation requirements in *HKAS 32* remain unchanged. *HKFRS 7* requires financial statements to disclose information for the purpose of evaluating the significance of the Group's financial instruments, the nature and extent of risks arising from those financial instruments to which the Group is exposed to and how the Group manages them. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

***HK(IFRIC)-Int 10: Interim financial reporting and impairment***

The adoption of this interpretation has changed the accounting policy relating to the reversal of impairment losses on goodwill and available-for-sale equity instruments carried at cost recognised in interim period. Under the new policy, impairment loss reported in the interim period will not be reversed in the full financial year, irrespective of whether conditions have improved in the second half of the year. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

***HK(IFRIC)-Int 11: HKFRS 2 – Group and Treasury Share Transactions***

*HK(IFRIC)-Int 11* requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. *HK(IFRIC)-Int 11* also addresses the accounting for share-based payment transactions involving two or more entities with the Group. As the Group currently has no such transactions, the interpretation is unlikely to have any financial impact on the Group.

## 1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### Basis of measurement

The financial statements have been prepared on the historical cost basis, except for available-for-sale financial assets and financial assets at fair value through profit and loss, which are measured at fair value as explained in the principal accounting policies.

### Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries as at 30 June each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Company using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full. The results of subsidiaries are consolidated from the date on which the Group obtains control and continue to be consolidated until the date that such control ceases.

### Subsidiaries

A subsidiary is an entity in which the Group has the power to govern the financial and operating policies so as to obtain benefit 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 investments is reduced to their recoverable amount on an individual basis. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

### Associates

An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

The Group's investment in associate is accounted for under the equity method of accounting. The consolidated income statement includes the Group's share of the post-acquisition results of the associate for the year. The consolidated balance sheet includes the Group's share of the net assets of the associate and also goodwill. The Group discontinues recognising its share of further losses when the Group's share of losses of the associate equals or exceeds the carrying amount of its interests in the associate, (which includes any long term interests that, in substance, form part of the Group's net investment in the associate), as the Group has no obligations in respect of the associate.

### Goodwill

Goodwill represents the excess of the cost of an acquisition over the Group's share of the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired associate. Goodwill on acquisition of associate is included in interests in the associate. Goodwill is carried at cost less accumulated impairment losses, which is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment test and determination of gain or loss on disposal, goodwill is allocated to cash-generating units. An impairment loss on goodwill is not reversed.

Any excess of the Group's interests in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition of associate at the date of acquisition, after reassessment, is recognised immediately in the income statement.

## 1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### 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. Repairs and maintenance are charged to 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 other property, plant and equipment over their estimated useful lives from the date on which they are available for use and after taking into account their estimated residual values, using the straight-line method, at the following rates per annum:

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

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

### 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 while 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 when the Group becomes a party to the contractual provisions of the instruments and on a trade date basis. A financial asset is derecognised when the Group's contractual rights to future cash flows from the financial asset expire or when the Group transfers the contractual rights to future cash flows to a third party. A financial liability is derecognised only when the liability is extinguished.

***Financial assets at fair value through profit or loss***

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. They are carried at fair value, with any resultant gain and loss recognised in profit or loss.

Financial assets are classified as held for trading if they are (i) acquired principally for the purpose of selling in the near future; (ii) part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or (iii) derivatives that are not designated and effective hedging instruments.

## 1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

***Financial assets at fair value through profit or loss (Continued)***

Financial assets are designated at initial recognition as at fair value through profit or loss if (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis; or (ii) they are part of a group of financial assets and/or financial liabilities that are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) they contain embedded derivatives that would need to be separately recorded.

***Loans and receivables***

Loans and receivables including accounts and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading. They are measured at amortised cost using the effective interest method, except where receivables are interest-free loans and without any fixed repayment term or the effect of discounting would be insignificant. In such case, the receivables are stated at cost less impairment loss. Amortised cost is calculated by taking into account any discount or premium on acquisition, over the years to maturity. Gains and losses arising from derecognition, impairment or through the amortisation process are recognised in the income statement.

***Held-to-maturity investments***

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. 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, over the year to maturity. Gains and losses arising from derecognition, impairment or through the amortisation process are recognised in the income statement.

***Available-for-sale financial assets***

Available-for-sale financial assets are non-derivative financial assets that are either designated at this category or not classified in any of the other categories of financial assets. They are measured at fair value with changes in value recognised as a separate component of equity until the assets are sold, collected or otherwise disposed of, or until the assets are determined to be impaired, at which time the cumulative gain or loss previously reported in equity is transferred to the income statement. Available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less impairment loss.

***Impairment of financial assets***

At each balance sheet date, the Group assesses whether there is objective evidence that financial assets, other than those at fair value through profit or loss, are impaired.

A provision for impairment of loans and receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Objective evidence of impairment for a portfolio of receivables could include Group's past experience of collecting payments and observable changes in national or local economic conditions that correlate with default on receivables. The amount of the provision is the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the financial assets' original effective interest rate. The carrying amount of the receivables is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in the income statement. When the accounts receivable and loans receivable are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the income statement.

## 1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

***Impairment of financial assets (Continued)***

For financial assets carried at amortised cost, such as held-to-maturity investments and other financial assets, an impairment loss is recognised in the income statement where there is objective evidence that the asset is impaired and is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the financial assets' original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly. If in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through income statement, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

When an available-for-sale financial asset is impaired, an amount comprising the difference between its acquisition cost (net of any principal repayment and amortisation) and current fair value, less any previously recognised impairment loss, is transferred from equity to income statement. Reversal of impairment loss of available-for-sale equity instrument is recognised in equity. Reversal of impairment loss of available-for-sale debt instruments are reversed through the income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

For an available-for-sale financial asset that is carried at cost, the amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss shall not be reversed.

***Financial liabilities***

The Group's financial liabilities include accounts and other payables and interest-bearing borrowings. All financial liabilities except for derivatives are recognised initially at their fair value and subsequently measured at amortised cost, using effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

***Financial guarantee contracts***

A financial guarantee contract is a contract that requires the issuer of the contract to make specified payments to reimburse the holder of the contract for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee contract is initially recognised as deferred income within trade and other payable at fair value, where such information is available, otherwise, it is recognised at consideration received and receivable. Subsequently, it is measured at the higher of the amount initially recognised, less accumulated amortisation, and the amount of the provision, if any, that is required to settle the commitment at the balance sheet date.

### 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 the consolidated 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.

## 1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### 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.

*Proceeds from sale of investments held for trading and futures contracts* are recognised on the transaction date when the relevant sale and purchase contract is entered into.

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

*Interest income* from financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

### 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 (the "functional currency"). The consolidated financial statements are presented in the currency of Hong Kong dollars, which is the Company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date 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.

The results and financial position of entities within the Group that have a functional currency different from the presentation currency ("foreign operations") are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet date;

- Income and expenses for each income statement are translated at average exchange rate;

- All resulting exchange differences arising from the above translation and exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised as a separate component of equity and recognised in consolidated income statement on disposal of foreign operations.

## 1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### Impairment of non-financial assets

At each balance sheet date, the Group reviews internal and external sources of information to determine whether its property, plant and equipment, intangible asset, investments in subsidiaries and associate and other non-current assets 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.

### 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 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.

## 1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### 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 discounted to its present value and after deducting the fair value of any related assets, including those retirement scheme benefit.

### Share-based payment transactions

***Equity-settled transactions***

The Group's employees, including directors, and other persons, including consultants, advisors and agents etc., receive remuneration in the form of share-based payment transactions, whereby they rendered services in exchange for share options. The cost of such transactions is measured by reference to the fair value of share options granted at the transaction date. The fair value of share options granted to these persons is determined using the Black-Scholes Pricing Model, taking into account the terms and conditions of the transactions, other than conditions linked to the price of the shares of the Company ("market conditions").

The cost of equity-settled transactions is expensed, together with a corresponding increase in equity, over the year in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("vesting period"). During the vesting period, the number of share options that is expected to vest ultimately is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the income statement for the year of the review, with a corresponding adjustment to the reserve within equity.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vested irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

### 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.

## 1. 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, assumptions concerning the future and judgements are made in the preparation of the financial statements. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances.

***Allowance for bad and doubtful debts***

The provision policy for bad and doubtful debts of the Group is based on the evaluation by management of the collectability of the accounts receivable. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including assessing the current creditworthiness and the past collection history of each customer. If the financial conditions of these customers are to deteriorate, resulting in an impairment of their ability to make payments, additional allowance will be required. At the balance sheet date, the accounts receivable, net of provision, amounted to HK$74,464,000 *(2007: HK$264,341,000)*.

***Impairment of investments and receivables***

The Group assesses annually if investments in subsidiaries and associates has suffered any impairment in accordance with *HKAS 36* and follows the guidance of *HKAS 39* in determining whether amounts due from these entities are impaired. Details of the approach are stated in the respective accounting policies. The assessment requires an estimation of future cash flows, including expected dividends, from the assets and the selection of appropriate discount rates. Future changes in financial performance and position of these entities would affect the estimation of impairment loss and cause the adjustments of their carrying amounts.

### Future changes in HKFRS

At the date of authorisation of these financial statements, the HKICPA has issued a number of new/revised HKFRS that are not yet effective for the current year, which the Group has not early adopted.

The directors are in the process of assessing the possible impact on the future adoption of these new/revised HKFRS, but are not yet in a position to reasonably estimate their impact on the Group's financial statements.

## 2. TURNOVER AND REVENUE

The principal activities of the Group comprise:

– broking index, commodity and currency futures 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.

| | **2008 HK$'000** | 2007 HK$'000 |
|---|---|---|
| Brokerage commission: | | |
| – securities dealing | **31,520** | 15,089 |
| – commodity and currency futures contracts on overseas exchanges | **24,377** | 32,447 |
| – index futures contracts on the Futures Exchange | **75** | 234 |
| Advisory, wealth management and insurance agency fees: | | |
| – corporate finance and advisory | **4,451** | 700 |
| – commission on sale of unit trusts and insurance-linked products | **32,335** | 24,304 |
| Interest income: | | |
| – securities margin financing | **7,322** | 7,394 |
| – loans and advances | **965** | 1,696 |
| Proprietary trading: | | |
| – gross proceeds from sale of listed securities | **6,801** | 19,244 |
| – net results from proprietary trading in futures contracts: | | |
| (i) on the Futures Exchange | **2,060** | 1,612 |
| (ii) on overseas exchanges | **4,903** | (356) |
| | **114,809** | 102,364 |

## 3. 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, securities broking and margin financing, wealth management and insurance agency, futures broking, corporate finance, 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:

| | | |
|---|---|---|
| Securities broking and margin financing | : | Provision of securities broking and margin financing 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 |
| Futures broking | : | Provision of agency and broking services in trading in Japanese commodity futures contracts, US commodity and currency futures contracts and Hong Kong index futures contracts |
| Corporate finance | : | Provision of corporate finance 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.

## 3. SEGMENT INFORMATION *(Continued)*

### Business segments *(Continued)*

| | 2008 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Securities broking and margin financing HK$'000 | Wealth management and insurance agency HK$'000 | Futures broking HK$'000 | Corporate finance HK$'000 | Money lending HK$'000 | Proprietary trading HK$'000 | Other operations HK$'000 | Consolidated HK$'000 |
| **Turnover and Revenue** | 38,842 | 32,335 | 24,452 | 4,451 | 965 | 13,764 | – | 114,809 |
| Brokerage and agency commission | (147) | (26,136) | (1,838) | (125) | – | (1,464) | – | (29,710) |
| **Results** | 14,698 | (425) | (705) | (1,548) | 540 | 7,611 | (8,977) | 11,194 |
| Gain on disposal of available-for-sale financial assets | | | | | | | | 5,362 |
| Provision for impairment loss on available-for-sale financial assets | | | | | | | | (4,300) |
| Finance costs | | | | | | | | (16) |
| Share of results of an associate | | | | | | | | (71) |
| Taxation | | | | | | | | 495 |
| **Profit for the year** | | | | | | | | 12,664 |
| **Assets** | | | | | | | | |
| Segment assets | 97,146 | 6,025 | 21,093 | 2,453 | 2,339 | 23,691 | 172,427 | 325,174 |
| Interests in an associate | | | | | | | | 2,860 |
| Tax prepaid | | | | | | | | 23 |
| Total assets | | | | | | | | 328,057 |
| **Liabilities** | | | | | | | | |
| Segment liabilities | 9,127 | 1,022 | 17,557 | 428 | 35 | – | 8,058 | 36,227 |
| Total liabilities | | | | | | | | 36,227 |
| **Other segment information:** | | | | | | | | |
| Capital expenditure | 285 | 26 | 104 | 2 | – | – | 82 | 499 |
| Depreciation | 158 | 22 | 1,034 | 13 | – | – | 38 | 1,265 |
| Amortisation | 60 | – | – | – | – | – | – | 60 |

## 3. SEGMENT INFORMATION *(Continued)*

### Business segments *(Continued)*

| | 2007 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Securities broking and margin financing HK$'000 | Wealth management and insurance agency HK$'000 | Futures broking HK$'000 | Corporate finance HK$'000 | Money lending HK$'000 | Proprietary trading HK$'000 | Other operations HK$'000 | Consolidated HK$'000 |
| **Turnover and Revenue** | 22,483 | 24,304 | 32,681 | 700 | 1,696 | 20,500 | – | 102,364 |
| Brokerage and agency commission | (93) | (20,789) | (2,222) | – | – | (1,494) | – | (24,598) |
| **Results** | 2,721 | (1,197) | (442) | (3,847) | 1,038 | 2,511 | (6,449) | (5,665) |
| Gain on disposal of available-for-sale financial assets | | | | | | | | 19,673 |
| Taxation | | | | | | | | (30) |
| **Profit for the year** | | | | | | | | 13,978 |
| **Assets** | | | | | | | | |
| Segment assets | 284,437 | 6,726 | 56,801 | 2,470 | 8,357 | 17,456 | 99,725 | 475,972 |
| Total assets | | | | | | | | 475,972 |
| **Liabilities** | | | | | | | | |
| Segment liabilities | 186,488 | 4,125 | 27,491 | 145 | 31 | – | 1,960 | 220,240 |
| Taxation | | | | | | | | 17,206 |
| Total liabilities | | | | | | | | 237,446 |
| **Other segment information:** | | | | | | | | |
| Capital expenditure | 165 | 6 | 1,952 | 5 | – | – | 48 | 2,176 |
| Depreciation | 138 | 26 | 2,186 | 18 | – | – | 13 | 2,381 |
| Amortisation | 60 | – | – | – | – | – | – | 60 |

## 4. OTHER REVENUE

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Dividend income from listed securities | **3,723** | 1,930 |
| Interest income | **5,124** | 2,440 |
| Management fee income | **960** | 960 |
| Loan arrangement fee income | **–** | 158 |
| Gain on disposal of available-for-sale financial assets | **5,362** | 19,673 |
| Change in fair value of investments held for trading | **736** | 1,509 |
| Exchange gain, net | **559** | – |
| Reversal of allowance for bad and doubtful debts | **1,964** | – |
| Sundry income | **1,176** | 532 |
| | **19,604** | 27,202 |

## 5. PROFIT BEFORE TAXATION

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| This is stated after charging: | | |
| **(a) Finance costs** | | |
| Interest expenses for securities broking and margin financing wholly repayable within five years | **2,828** | 2,463 |
| Other interest expenses | **16** | – |
| | **2,844** | 2,463 |
| **(b) Other items** | | |
| Employee benefit expenses: | | |
| – Salaries, commission and allowances | **52,118** | 41,498 |
| – Contributions to retirement benefit schemes (Note 29) | **1,125** | 1,016 |
| – Equity-settled share-based payment expenses (Note 27) | **89** | – |
| | **53,332** | 42,514 |
| Auditors' remuneration | **880** | 835 |
| Loss on disposal of property, plant and equipment | **–** | 209 |
| Operating lease payments on premises | **4,671** | 4,739 |
| Allowance for bad and doubtful debts | **–** | 2,065 |
| Provision for impairment loss on available-for-sale financial assets | **4,300** | – |
| Equity-settled share-based payment expenses (Note 27) | **447** | – |

## 6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

### Directors' emoluments

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

| | 2008 | | | | |
|---|---|---|---|---|---|
| **Name of director** | **Fees HK$'000** | **Salaries HK$'000** | **Discretionary bonuses HK$'000** | **Employer's contribution to retirement benefit schemes HK$'000** | **Total HK$'000** |
| ***Executive directors:*** | | | | | |
| Yip Man Fan | **–** | **1,469** | **1,738** | **34** | **3,241** |
| Kwok Kam Hoi | **–** | **1,306** | **914** | **34** | **2,254** |
| Tsunoyama Toru | **–** | **1,182** | **906** | **34** | **2,122** |
| Wong, Vicky Lai Ping | **–** | **953** | **400** | **34** | **1,387** |
| ***Independent non-executive directors:*** | | | | | |
| Lam, Andy Siu Wing | **232** | **–** | **–** | **–** | **232** |
| Ma, Andrew Chiu Cheung | **205** | **–** | **–** | **–** | **205** |
| Yu King Tin | **182** | **–** | **–** | **–** | **182** |
| | **619** | **4,910** | **3,958** | **136** | **9,623** |

| | | 2007 | | | | |
|---|---|---|---|---|---|---|
| Name of director | | Fees HK$'000 | Salaries HK$'000 | Discretionary bonuses HK$'000 | Employer's contribution to retirement benefit schemes HK$'000 | Total HK$'000 |
| ***Executive directors:*** | | | | | | |
| Yip Man Fan | | – | 1,382 | 115 | 34 | 1,531 |
| Kwok Kam Hoi | | – | 1,229 | 102 | 34 | 1,365 |
| Tsunoyama Toru | | – | 1,088 | 90 | 33 | 1,211 |
| Wong, Vicky Lai Ping | Note | – | 837 | 68 | 33 | 938 |
| ***Independent non-executive directors:*** | | | | | | |
| Lam, Andy Siu Wing | | 194 | – | – | – | 194 |
| Ma, Andrew Chiu Cheung | | 184 | – | – | – | 184 |
| Yu King Tin | | 180 | – | – | – | 180 |
| | | 558 | 4,536 | 375 | 134 | 5,603 |

Note: Appointed on 1 July 2006.

## 6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

**Five highest paid employees' emoluments**

Of the five individuals with the highest emoluments, four (*2007: three*) were directors whose emoluments were disclosed above. The aggregate of the emoluments in respect of the remaining one (*2007: two*) individual was as follows:

| | **2008 HK$'000** | 2007 HK$'000 |
|---|---|---|
| Salaries and other benefits | **968** | 2,418 |
| Contributions to retirement benefit schemes | **12** | 24 |
| | **980** | 2,442 |

| | **Number of individuals** | |
|---|---|---|
| | **2008** | 2007 |
| The emoluments fell within the following bands: | | |
| Nil to HK$1,000,000 | **1** | – |
| HK$1,000,001 to HK$1,500,000 | **–** | 2 |
| | **1** | 2 |

In addition 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 27 to the financial statements.

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.

## 7. TAXATION

Hong Kong Profits Tax has been provided at the rate of 16.5% *(2007: 17.5%)* on the Group's estimated assessable profits arising from Hong Kong during the year. In the opinion of the directors, the Group is not subject to taxation in any other jurisdictions.

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

| | **2008 HK$'000** | 2007 HK$'000 |
|---|---|---|
| Current taxation: | | |
| Hong Kong Profits Tax | | |
| Current year | **–** | 30 |
| Overprovision of previous years | **(495)** | – |
| Tax (credit) charge for the year | **(495)** | 30 |

## 7. TAXATION *(Continued)*

**Reconciliation of tax (credit) charge**

| | **2008 HK$'000** | 2007 HK$'000 |
|---|---|---|
| Profit before taxation | **12,169** | 14,008 |
| Income tax at applicable tax rate of 16.5% *(2007: 17.5%)* | **2,008** | 2,451 |
| Non-deductible expenses | **1,421** | 707 |
| Tax exempt revenue | **(3,067)** | (4,053) |
| Unrecognised tax losses | **2,519** | 2,080 |
| Unrecognised temporary difference | **(13)** | 58 |
| Utilisation of previously unrecognised tax losses | **(2,868)** | (1,213) |
| Overprovision in prior years | **(495)** | – |
| Total tax (credit) charge for the year | **(495)** | 30 |

## 8. PROFIT 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$12,664,000 *(2007: HK$13,978,000)*, a loss of HK$6,071,000 *(2007: profit of HK$15,865,000)* is dealt with in the financial statements of the Company.

## 9. DIVIDENDS

| | **2008 HK$** | 2007 HK$ |
|---|---|---|
| Proposed final dividend of 1 HK cent *(2007: 1 HK cent)* per share | **5,626** | 5,593 |

The final dividend in respect of 2008 has been proposed by the board of directors after the balance sheet date. The proposed dividend is subject to the approval of the Shareholders at the forthcoming annual general meeting.

## 10. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share are based on the profit attributable to equity holders of the Company for the year of HK$12,664,000 *(2007: HK$13,978,000)*.

The basic earnings per share is based on the weighted average number of ordinary shares of 556,303,245 *(2007: 412,453,676)* in issue during the year.

The diluted earnings per share is based on 569,940,163 *(2007: 426,012,688)* shares which is the weighted average number of ordinary shares during the year adjusted for the number of dilutive potential shares under the share option schemes.

The weighted average number of ordinary shares adopted in the calculation of the basic earnings per share and diluted earnings per share for 2008 and 2007 have been adjusted to reflect the impact of the bonus shares issued during the year.

## 11. PROPERTY, PLANT AND EQUIPMENT

| Group | Leasehold improvements HK$'000 | Furniture and fixtures HK$'000 | Office equipment HK$'000 | Computer equipment HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Reconciliation of carrying amount – year ended 30 June 2007 | | | | | |
| At beginning of year | 776 | 185 | 432 | 504 | 1,897 |
| Additions | 1,946 | – | 40 | 190 | 2,176 |
| Disposals | (205) | – | (4) | – | (209) |
| Depreciation | (1,697) | (76) | (202) | (406) | (2,381) |
| At balance sheet date | 820 | 109 | 266 | 288 | 1,483 |
| **Reconciliation of carrying amount – year ended 30 June 2008** | | | | | |
| At beginning of year | **820** | **109** | **266** | **288** | **1,483** |
| Additions | **–** | **3** | **106** | **390** | **499** |
| Depreciation | **(820)** | **(57)** | **(162)** | **(226)** | **(1,265)** |
| **At balance sheet date** | **–** | **55** | **210** | **452** | **717** |

| Group | Leasehold improvements HK$'000 | Furniture and fixtures HK$'000 | Office equipment HK$'000 | Computer equipment HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 July 2007 | | | | | |
| Cost | 4,745 | 755 | 1,896 | 4,399 | 11,795 |
| Accumulated depreciation | (3,925) | (646) | (1,630) | (4,111) | (10,312) |
| | 820 | 109 | 266 | 288 | 1,483 |
| **At 30 June 2008** | | | | | |
| Cost | **4,745** | **758** | **2,002** | **4,789** | **12,294** |
| Accumulated depreciation | **(4,745)** | **(703)** | **(1,792)** | **(4,337)** | **(11,577)** |
| | **–** | **55** | **210** | **452** | **717** |

## 12. INTANGIBLE ASSETS

| | Group 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| **Reconciliation of carrying amount – year ended 30 June** | | |
| At beginning of year | **350** | 410 |
| Amortisation | **(60)** | (60) |
| **At balance sheet date** | **290** | 350 |
| **At 30 June** | | |
| Cost | **600** | 600 |
| Accumulated amortisation | **(310)** | (250) |
| | **290** | 350 |

## 13. INTERESTS IN SUBSIDIARIES

| | | Company 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| Interests in subsidiaries | | | |
| Unlisted shares, at cost | | **65,237** | 65,237 |
| Amount due from a subsidiary | Note | **57,886** | 81,471 |
| | | **123,123** | 146,708 |

Note: The amount due from a subsidiary is unsecured, interest-free and has no fixed repayment term. The carrying amount of the amount due approximates its fair value.

Details of the principal subsidiaries at the balance sheet date were as follows:

| Name of subsidiary | Place of incorporation/ place of operation | Particulars of issued and fully paid share capital | Percentage of equity interests 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 Asset Management Limited ("TAML") | Hong Kong/ Hong Kong | HK$21,000,000 (divided into 15,000,000 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 |

## 13. INTERESTS IN SUBSIDIARIES *(Continued)*

| Name of subsidiary | Place of incorporation/ place of operation | Particulars of issued and fully paid share capital | Percentage of equity interests attributable to the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Directly | Indirectly | |
| Tanrich Capital Limited ("TCL") | Hong Kong/ Hong Kong | HK$16,000,000 (divided into 16,000,000 ordinary shares of HK$1 each) | – | 100% | Provision of corporate finance advisory services |
| 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 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 Wealth Management Limited ("TWML") | Hong Kong/ Hong Kong | HK$6,000,000 (divided into 6,000,000 ordinary shares of HK$1 each) | – | 100% | Distribution of insurance-linked products and provision of insurance agency and broking services |
| Tanrich Investments Limited ("TIL") | Hong Kong/ Hong Kong | HK$1 (divided into 1 ordinary share of HK$1 each) | – | 100% | Investment holding |
| Tanrich Investment Management Limited (formerly known as Tanrich Financial Group (China) Limited ) ("TIML") | Hong Kong/ Hong Kong | HK$1,000,000 (divided into 1,000,000 ordinary shares of HK$1 each) | – | 100% | Investment holding |

In accordance with Articles of Association of each of TAML, TFIN, TFL and TSCL, 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. INTERESTS IN AN ASSOCIATE

| | Group 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Share of net assets | **942** | – |
| Goodwill | **1,918** | – |
| | **2,860** | – |

The investments in an associate represents 29.57% of the issued ordinary share capital of FundStreet AG ("FundStreet"), a company engaged in fund management in Switzerland which is incorporated in Zurich, Switzerland. The associate has its financial year ended on 31 December. For the purpose of Group consolidation, its management accounts for the year ended 30 June 2008 have been equity accounted for in these financial statements.

Summary of financial information of the associate was as follows:

| | Group 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| **Financial position at balance sheet date** | | |
| Non-current assets | **751** | – |
| Current assets | **2,438** | – |
| Current liabilities | **(5)** | – |
| Net assets | **3,184** | – |
| Group's share of net assets of associate | **942** | – |
| **Operating results for the period ended 30 June 2008** | | |
| Revenue | **88** | – |
| Loss for the period | **(242)** | – |
| Group's share of loss of associate for the period | **(71)** | – |

## 15. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| **Non-current** | | | | |
| Equity investments – unlisted | **14,427** | 88 | **–** | – |
| Equity investments – listed in Hong Kong | **92,413** | 78,084 | **65,151** | 63,263 |
| Provision for impairment loss | **(4,300)** | – | **–** | – |
| | **102,540** | 78,172 | **65,151** | 63,263 |

The Group has pledged certain listed investments of aggregate carrying amount of HK$50,116,000 *(2007: HK$44,240,000)* to banks as collateral for the banking facilities granted to two subsidiaries of the Company.

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 | Class share held | Percentage of interests held | | Principal activities |
|---|---|---|---|---|---|
| | | | Group | Company | |
| Hong Kong Exchanges and Clearing Limited | Hong Kong/ Hong Kong | Ordinary shares | 0.07% | 0.05% | Owns and operates the only stock exchange and futures exchange in Hong Kong, and their related clearing houses |

## 16. OTHER FINANCIAL ASSETS

| | Group and Company | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Held-to-maturity financial assets, unlisted | **22,369** | – |
| Embedded derivative designated as at fair value through profit or loss upon initial recognition | **1,010** | – |
| | **23,379** | – |
| Current portion of other financial assets | **(7,803)** | – |
| | **15,576** | – |

## 17. OTHER NON-CURRENT ASSETS

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **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 |

## 18. LOANS AND ADVANCES

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Loans and advances | | |
| Unsecured | **127** | 255 |
| Secured | **292** | 5,000 |
| | **419** | 5,255 |
| Current portion of loans and advances | **(233)** | (5,149) |
| | **186** | 106 |

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.

## 19. INVESTMENTS HELD FOR TRADING

| | Group and Company | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Listed securities in Hong Kong, at market value | **8,435** | 7,916 |

## 20. ACCOUNTS RECEIVABLE

| | Note | Group 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| Accounts receivable arising from the ordinary course of business of broking in securities and futures contracts: | | | |
| – securities cash clients | (i) | **4,270** | 7,077 |
| – securities margin clients | (ii) | **35,818** | 38,549 |
| – securities subscription clients | (iii) | **763** | 182,674 |
| – securities clearing house and brokers | (iii) | **2,069** | 1,631 |
| – futures clearing house and brokers | (iv) | **30,932** | 34,081 |
| – futures clients | (v) | **–** | – |
| Accounts receivable arising from the provision of corporate finance advisory services | (iii) | **113** | 36 |
| Accounts receivable arising from the provision of unit trusts and insurance-linked products agency services | (iii) | **499** | 293 |
| | | **74,464** | 264,341 |

### Credit policy for margin financing

Accounts receivable from securities margin clients represent loans granted to such clients by the Group. These loans are collaterised by listed securities pledged to the Group.

Risk and Credit Control Committee ("RCCC") is the committee established under the Board for the overall credit policy setting and credit risk assessment. Credit limit is set for each client based on their financial and trading credibility and is approved according to the authority set by the RCCC. Loans are granted to securities margin clients on the condition that they pledged approved securities within margin ratios determined by the RCCC.

RCCC reviews and determines the margin ratios on a periodic basis.

Certain Directors together with Credit Control Working Group is responsible for monitoring the margin call on a daily basis and reviewing the overall risk and credit control on a monthly basis. Provision is made for loans which are considered to be doubtful.

### Settlement terms

The settlement terms of accounts receivable arising from the ordinary course of business of broking in securities are two trading days after the transaction dates.

Accounts receivable arising from the subscription of initial public offering of listed companies in Hong Kong on behalf of clients are settled upon the share allotments of such listed companies.

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

## 20. ACCOUNTS RECEIVABLE *(Continued)*

Note:

(i) At the balance sheet date, the ageing analysis of accounts receivable from securities cash clients was as follows:

| | Group 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Current | **3,594** | 5,889 |
| Overdue: | | |
| Within 30 days | **623** | 1,188 |
| 31 – 90 days | **2** | – |
| 91 – 180 days | **51** | – |
| | **4,270** | 7,077 |

(ii) At the balance sheet date, the ageing analysis of accounts receivable from securities margin clients was as follows:

| | Group 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Current | **31,594** | 33,567 |
| Overdue: | | |
| Within 30 days | **2,271** | 4,982 |
| Over 180 days | **1,953** | 1,953 |
| | **35,818** | 40,502 |
| Allowance for bad and doubtful accounts | **–** | (1,953) |
| | **35,818** | 38,549 |

Accounts receivable from securities margin clients are secured by their pledged securities, repayable on demand and bear interests at commercial rates. At the balance sheet date, fair value of marketable securities pledged by securities margin clients was HK$197,670,000 *(2007: HK$258,048,000)*.

The movements in the provision for impairment of accounts receivable from securities margin clients were as follows:

| | | Group 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| At beginning of year | | **1,953** | – |
| Impairment losses recognised | | **–** | 1,953 |
| Impairment losses reversed | Note | **(1,953)** | – |
| **At balance sheet date** | | **–** | 1,953 |

Note: The amount due was fully recovered in August 2008.

## 20. ACCOUNTS RECEIVABLE *(Continued)*

Note: *(Continued)*

(iii) At the balance sheet date, the accounts receivable from securities subscription clients, security clearing house and brokers, provision of corporate financial advisory services and unit trusts and insurance-linked products agency services were not yet due.

(iv) Accounts receivable from the futures clearing house and brokers did not include a deposit of HK$320,000 (*2007: HK$1,470,000*) in respect of the clients' monies deposited therein. At the balance sheet date, the accounts receivable from futures clearing houses and brokers were all aged within 30 days and repayable on demand.

(v) At the balance sheet date, the ageing analysis of accounts receivable from futures clients with overloss was as follows:

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Overdue: | | |
| 31 – 90 days | **–** | 10 |
| 91 – 180 days | **–** | 11 |
| Over 180 days | **10** | 93 |
| | **10** | 114 |
| Allowance for bad and doubtful accounts | **(10)** | (114) |
| | **–** | – |

The movements in the provision for impairment of accounts receivable from futures clients with overloss were as follows:

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| At beginning of year | **114** | 31 |
| Impairment losses recognised | **313** | 142 |
| Amount written off as uncollectible | **(93)** | (29) |
| Amount recovered | **(324)** | (30) |
| **At balance sheet date** | **10** | 114 |

Accounts receivable with carrying amount of HK$4,900,000 *(2007: HK$6,170,000)* that are past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the RCCC of the Company is of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances except for accounts receivable from securities margin clients.

Accounts receivable are neither past due nor impaired at the balance sheet date for which the Group believes that the amounts are considered recoverable.

## 21. OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Deposits, prepayments and other receivables | **6,170** | 5,319 | **105** | 94 |
| Tax Reserve Certificates issued by the Inland Revenue Department | **–** | 17,114 | **–** | – |
| | **6,170** | 22,433 | **105** | 94 |

## 22. CASH AND CASH EQUIVALENTS

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Pledged deposits | **836** | 1,039 |
| Cash and bank balances | **105,924** | 92,983 |
| As stated in the consolidated cash flow statement | **106,760** | 94,022 |

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$58,490,000 *(2007: HK$86,189,000)*.

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

## 23. INTEREST-BEARING BORROWINGS

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Bank loans, secured and wholly repayable within 12 months | **–** | 156,000 |

The bank loans in 2007 were borrowed principally for the purpose of providing margin financing to securities subscription clients. The weighted average effective interest rate on the loans in 2007 was 5.37% per annum. The bank loan was fully repaid during the year.

## 24. ACCOUNTS PAYABLE

| | Note | Group 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| Accounts payable arising from the ordinary course of business of broking in securities and futures contracts: | | | |
| – securities cash clients | (i) | **1,083** | 20,097 |
| – securities margin clients | (i) | **114** | 851 |
| – futures clients | (ii) | **15,508** | 24,233 |
| – clearing house and securities brokers | | **5,598** | 6,474 |
| Accounts payable arising from the provision of unit trusts and insurance-linked products agency services | (iii) | **57** | 79 |
| | (iv) | **22,360** | 51,734 |

Note:

(i) The settlement terms of accounts payable arising from the ordinary course of business of broking in securities in respect of cash clients and margin clients are two trading days after the transaction dates.

(ii) 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 in future contracts. The excess over the required margin deposits stipulated are repayable to clients on demand.

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

(iv) Accounts payable are stated net of clients' segregated assets of HK$58,810,000 *(2007: HK$87,659,000)*.

(v) No aged analysis is disclosed in respect of accounts payable arising from the ordinary course of business of broking in securities and futures contracts and accounts payable arising from the provision of unit trusts and insurance-linked products agency services. In the opinion of the directors, an aged analysis does not give additional value in view of the businesses' nature.

(vi) Interest with reference to savings rate of financial institutions is payable to accounts payable arising from the ordinary course of business of securities broking subject to their balance maintained with the Group. All other categories of accounts payable are non-interest bearing.

## 25. DEFERRED TAXATION

### Recognised deferred tax assets (liabilities) of the Group

| | Assets 2008 HK$'000 | 2007 HK$'000 | Liabilities 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|---|
| Depreciation allowances | **–** | – | **(60)** | (36) |
| Tax losses | **60** | 36 | **–** | – |
| Deferred tax assets (liabilities) | **60** | 36 | **(60)** | (36) |
| Offset deferred tax assets and liabilities | **(60)** | (36) | **60** | 36 |
| **Net tax assets (liabilities)** | **–** | – | **–** | – |

## 25. DEFERRED TAXATION *(Continued)*

**Unrecognised deferred tax assets of the Group arising from**

| | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|
| Deductible temporary differences | **60** | 1,255 |
| Tax losses | **67,328** | 71,745 |
| **At balance sheet date** | **67,388** | 73,000 |

Both the tax losses and the deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

## 26. SHARE CAPITAL

| | | 2008 | | 2007 | |
|---|---|---|---|---|---|
| | Note | Number of shares '000 | Amount HK$'000 | Number of shares '000 | Amount HK$'000 |
| **Authorised :** | | | | | |
| 1,000,000,000 ordinary shares of HK$0.1 each | | **1,000,000** | **100,000** | 1,000,000 | 100,000 |
| **Issued and fully paid :** | | | | | |
| At beginning of year | | **264,383** | **26,438** | 200,000 | 20,000 |
| Issue of shares under share option schemes | (i) | **5,080** | **508** | 24,383 | 2,438 |
| Issue of bonus shares | (ii) | **266,169** | **26,617** | – | – |
| Issue of new shares | (iii) | **27,000** | **2,700** | 40,000 | 4,000 |
| **At balance sheet date** | | **562,632** | **56,263** | 264,383 | 26,438 |

Note:

(i) Before 1 August 2007, share options granted under the share option schemes were exercised to subscribe for 1,786,000 ordinary shares of HK$0.1 each of the Company at the exercise prices ranging from HK$0.65 to HK$0.72 per share.

After 1 August 2007, share options granted under the share option schemes were exercised to subscribe for 3,294,000 ordinary shares of HK$0.1 each of the Company at the exercise prices ranging from HK$0.325 to HK$0.335 per share.

(ii) By an ordinary resolution passed at a special general meeting held on 1 August 2007, an aggregate of 266,169,000 bonus shares of HK$0.1 each were issued in the proportion of one ordinary share for every one existing ordinary shares.

(iii) In August 2007, an aggregate of 27,000,000 ordinary shares of HK$0.1 each of the Company were issued to an independent investor at the price of HK$1.40 per share to provide for additional working capital.

All these shares issued during the year rank pari passu in all respects with the then existing shares.

## 27. SHARE OPTION SCHEMES

### (a) Pre-Listing Share Option Scheme ("Pre-Listing Scheme")

Pursuant to a share option scheme of the Company, which was adopted on 7 January 2002, the Directors 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 of HK$1 is payable 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 were as follows:

| | Number of options ('000) 2008 | | | |
|---|---|---|---|---|
| **Subscription price** | **HK$0.36** | **HK$0.325** | **HK$0.335** | **Total** |
| At beginning of year | **8,420** | **3,000** | **1,492** | **12,912** |
| Exercised | **(1,820)** | **(2,000)** | **(292)** | **(4,112)** |
| Lapsed | **(280)** | **–** | **–** | **(280)** |
| **At balance sheet date** | **6,320** | **1,000** | **1,200** | **8,520** |

| | Number of options ('000) 2007 | | | | |
|---|---|---|---|---|---|
| Subscription price | HK$0.305 | HK$0.36 | HK$0.325 | HK$0.335 | Total |
| At beginning of year | 12,200 | 23,340 | – | – | 35,540 |
| Granted | – | – | 3,000 | 1,492 | 4,492 |
| Exercised | (11,800) | (14,480) | – | – | (26,280) |
| Lapsed | (400) | (440) | – | – | (840) |
| At balance sheet date | – | 8,420 | 3,000 | 1,492 | 12,912 |

At the balance sheet date, the weighted average remaining contractual life of the Company's share options was 3.5 years *(2007: 4.5 years)*. Details of the movements in the Pre-Listing Scheme are set out in the Directors' Report on pages 22 to 23.

### (b) Post-Listing Share Option Scheme ("Post-Listing Scheme")

Another share option scheme of the Company was adopted on 30 January 2004. The Directors 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 were as follows:

| | Number of options ('000) 2008 | | | | |
|---|---|---|---|---|---|
| **Exercise price** | **HK$0.78** | **HK$1.50** | **HK$0.335** | **HK$0.92** | **Total** |
| At beginning of year | **–** | **–** | **15,286** | **1,200** | **16,486** |
| Granted | **600** | **14,000** | **–** | **–** | **14,600** |
| Exercised | **–** | **–** | **(2,754)** | **–** | **(2,754)** |
| Lapsed | **(80)** | **(12,000)** | **–** | **–** | **(12,080)** |
| **At balance sheet date** | **520** | **2,000** | **12,532** | **1,200** | **16,252** |

## 27. SHARE OPTION SCHEMES *(Continued)*

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

| | Number of options ('000) 2007 | | |
|---|---|---|---|
| Exercise price | HK$0.335 | HK$0.92 | Total |
| At beginning of year | 25,476 | – | 25,476 |
| Granted | 13,600 | 1,200 | 14,800 |
| Exercised | (22,486) | – | (22,486) |
| Lapsed | (1,304) | – | (1,304) |
| At balance sheet date | 15,286 | 1,200 | 16,486 |

At the balance sheet date, the weighted average remaining contractual life of the Company's share options was 8.5 years *(2007: 9.3 years)*. Details of the movements in the Post-Listing Scheme are set out in the Directors' Report on pages 24 to 25.

### (c) Fair value of share options

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of share options granted is measured based on the Black-Scholes Option Pricing Model. The contractual life of the share option is used as an input to this model.

| Fair value of share options and assumptions on grant date | 14 August 2007 | 6 November 2007 |
|---|---|---|
| Fair value | HK$0.255 | HK$0.229 |
| Share price at grant date | HK$1.43 | HK$0.74 |
| Exercise price | HK$1.50 | HK$0.78 |
| Expected volatility | 80.59% | 86.74% |
| Expected option life | 18 months | 18 months |
| Expected dividends | 0% | 0% |
| Risk-free interest rate (with reference to Hong Kong Exchange Fund Note) | 3.99% | 2.22% |

The expected volatility is based on the weighted average volatility. Expected dividends are zero percent with reference to historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate. Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

The Group recognised equity-settled share-based payment expenses as follows:

| | **Group and Company** | |
|---|---|---|
| | **2008** **HK$'000** | 2007 HK$'000 |
| Employee benefits expenses | **89** | – |
| Other operating expenses | **447** | – |
| | **536** | – |

The directors assessed and considered that the fair value of share options granted during the year ended 30 June 2007 under the share option schemes at the grant date was immaterial in the financial statements.

## 28. RESERVES

| Group | Investment revaluation reserve HK$'000 | Share premium HK$'000 | Capital reserve HK$'000 (Note (i)) | Share options reserve HK$'000 | Foreign exchange reserve HK$'000 | Retained earnings HK$'000 | Proposed final dividend HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| At 1 July 2006 | 45,218 | 17,137 | 40,836 | – | – | 28,270 | – | 131,461 |
| Change in fair value of available-for-sale financial assets | 52,573 | – | – | – | – | – | – | 52,573 |
| Realisation upon disposal of available-for-sale financial assets | (19,744) | – | – | – | – | – | – | (19,744) |
| Profit for the year | – | – | – | – | – | 13,978 | – | 13,978 |
| Issue of shares under share option schemes | – | 13,906 | – | – | – | – | – | 13,906 |
| Issue of new shares, net of expenses | – | 19,914 | – | – | – | – | – | 19,914 |
| Proposed 2007 final dividend (note 9) | – | – | – | – | – | (5,593) | 5,593 | – |
| At 30 June 2007 | 78,047 | 50,957 | 40,836 | – | – | 36,655 | 5,593 | 212,088 |
| At 1 July 2007 | **78,047** | **50,957** | **40,836** | **–** | **–** | **36,655** | **5,593** | **212,088** |
| Change in fair value of available-for-sale financial assets | **14,692** | **–** | **–** | **–** | **–** | **–** | **–** | **14,692** |
| Realisation upon disposal of available-for-sale financial assets | **(5,362)** | **–** | **–** | **–** | **–** | **–** | **–** | **(5,362)** |
| Profit for the year | **–** | **–** | **–** | **–** | **–** | **12,664** | **–** | **12,664** |
| 2007 final dividend paid | **–** | **–** | **–** | **–** | **–** | **–** | **(5,593)** | **(5,593)** |
| Recognition of equity-settled share-based payment expenses (note 27) | **–** | **–** | **–** | **536** | **–** | **–** | **–** | **536** |
| Issue of bonus shares (note 26(ii)) | **–** | **(26,617)** | **–** | **–** | **–** | **–** | **–** | **(26,617)** |
| Issue of shares under share option schemes (note 26(i)) | **–** | **1,818** | **–** | **–** | **–** | **–** | **–** | **1,818** |
| Issue of new shares, net of expenses (note 26(iii)) | **–** | **30,920** | **–** | **–** | **–** | **–** | **–** | **30,920** |
| Exchange difference on translation of financial statements of an overseas associate | **–** | **–** | **–** | **–** | **421** | **–** | **–** | **421** |
| Proposed 2008 final dividend (note 9) | **–** | **–** | **–** | **–** | **–** | **(5,626)** | **5,626** | **–** |
| **At 30 June 2008** | **87,377** | **57,078** | **40,836** | **536** | **421** | **43,693** | **5,626** | **235,567** |

## 28. RESERVES *(Continued)*

| Company | Investment revaluation reserve HK$'000 | Share premium HK$'000 (Note (iii)) | Contributed surplus HK$'000 (Note (ii)) | Share options reserve HK$'000 | Retained earnings HK$'000 | Proposed final dividend HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| At 1 July 2006 | 27,008 | 17,137 | 65,059 | – | 12,467 | – | 121,671 |
| Change in fair value of available-for-sale financial assets | 45,769 | – | – | – | – | – | 45,769 |
| Realisation upon disposal of available-for-sale financial assets | (18,894) | – | – | – | – | – | (18,894) |
| Profit for the year | – | – | – | – | 15,865 | – | 15,865 |
| Issue of shares under share option schemes | – | 13,906 | – | – | – | – | 13,906 |
| Issue of new shares, net of expenses | – | 19,674 | – | – | – | – | 19,674 |
| Proposed 2007 final dividend (note 9) | – | – | – | – | (5,593) | 5,593 | – |
| At 30 June 2007 | 53,883 | 50,717 | 65,059 | – | 22,739 | 5,593 | 197,991 |
| At 1 July 2007 | **53,883** | **50,717** | **65,059** | **–** | **22,739** | **5,593** | **197,991** |
| Change in fair value of available-for-sale financial assets | **1,887** | **–** | **–** | **–** | **–** | **–** | **1,887** |
| Loss for the year | **–** | **–** | **–** | **–** | **(6,071)** | **–** | **(6,071)** |
| 2007 final dividend paid | **–** | **–** | **–** | **–** | **–** | **(5,593)** | **(5,593)** |
| Recognition of equity-settled share-based payment expenses (note 27) | **–** | **–** | **–** | **536** | **–** | **–** | **536** |
| Issue of bonus shares | **–** | **(26,617)** | **–** | **–** | **–** | **–** | **(26,617)** |
| Issue of shares under share option schemes (note 26(ii)) | **–** | **1,818** | **–** | **–** | **–** | **–** | **1,818** |
| Issue of new shares, net of expenses (note 26(iii)) | **–** | **30,920** | **–** | **–** | **–** | **–** | **30,920** |
| Proposed 2008 final dividend (note 9) | **–** | **–** | **–** | **–** | **(5,626)** | **5,626** | **–** |
| **At 30 June 2008** | **55,770** | **56,838** | **65,059** | **536** | **11,042** | **5,626** | **194,871** |

Note:

**(i) 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.

**(ii) 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.

**(iii) Share premium**
The share premium account of the Company of HK$56,838,000 *(2007: HK$50,717,000)* can be distributed in the form of fully paid bonus shares pursuant to the Companies Act 1981 of Bermuda.

**(iv) Distributable reserve**
As at the balance sheet date, in the opinion of the Directors, the reserves of the Company available for distribution to shareholders amounted to HK$81,727,000 *(2007: HK$93,391,000)* subject to the restriction stated above.

## 29. 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 ranges from five to seven per cent of their basic salaries and commissions.

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:

| | **2008**<br>**HK$'000** | 2007<br>HK$'000 |
|---|---|---|
| Gross employer's contributions | **1,226** | 1,088 |
| Less : Forfeited contributions utilised to<br>offset employer's contributions for the year | **(101)** | (72) |
| Net employer's contributions charged to income statement | **1,125** | 1,016 |

## 30. RELATED PARTY TRANSACTIONS

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

| **Related party relationship** | **Nature of transaction** | **2008**<br>**HK$'000** | 2007<br>HK$'000 |
|---|---|---|---|
| Key management personnel, excluding directors | Short-term employee benefits | **6,016** | 6,110 |
| A related company | Management fee received | **(960)** | (960) |
| THKHL (Note) | Motor vehicle lease payment | **20** | – |

Note: During the year, the Group charged and paid to a related company, Tanrich (Hong Kong) Holdings Limited ("THKHL") management fee of HK$80,000 per month and lease payment of HK$20,000 per month for the management and personnel supportive services provided by the Group and for the use of a motor vehicle respectively. THKHL is controlled by a combination of certain directors of the Company.

## 31. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

| Group<br>30 June 2008 | Loans and receivables HK$'000 | Assets at fair value through profit and loss HK$'000 | Held-to-maturity HK$'000 | Available-for-sale HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Available-for-sale financial assets | – | – | – | 102,540 | 102,540 |
| Other financial assets | – | 1,010 | 22,369 | – | 23,379 |
| Loans and advances | 419 | – | – | – | 419 |
| Investments held for trading | – | 8,435 | – | – | 8,435 |
| Accounts receivable | 74,464 | – | – | – | 74,464 |
| Financial assets included in other receivables | 6,170 | – | – | – | 6,170 |
| Other non-current assets | 2,000 | – | – | – | 2,000 |
| Pledged deposits | 836 | – | – | – | 836 |
| Cash and bank balances | 105,924 | – | – | – | 105,924 |
| | 189,813 | 9,445 | 22,369 | 102,540 | 324,167 |

| Group<br>30 June 2008 | Financial liabilities at amortised cost HK$'000 |
|---|---|
| **Financial liabilities** | |
| Accounts payable | 22,360 |
| Financial liabilities included in other payables and accrued charges | 13,867 |
| | 36,227 |

## 31. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows: *(Continued)*

| **Group**<br>30 June 2007 | Loans and receivables HK$'000 | Assets at fair value through profit and loss HK$'000 | Available-for-sale HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Available-for-sale financial assets | – | – | 78,172 | 78,172 |
| Loans and advances | 5,255 | – | – | 5,255 |
| Investments held for trading | – | 7,916 | – | 7,916 |
| Accounts receivable | 264,341 | – | – | 264,341 |
| Financial assets included in other receivables | 22,433 | – | – | 22,433 |
| Other non-current assets | 2,000 | – | – | 2,000 |
| Pledged deposits | 1,039 | – | – | 1,039 |
| Cash and bank balances | 92,983 | – | – | 92,983 |
| | 388,051 | 7,916 | 78,172 | 474,139 |

| **Group**<br>30 June 2007 | Financial liabilities at amortised cost HK$'000 |
|---|---|
| **Financial liabilities** | |
| Interest-bearing borrowings | 156,000 |
| Accounts payable | 51,734 |
| Financial liabilities included in other payables and accrued charges | 12,506 |
| | 220,240 |

## 31. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows: *(Continued)*

| **Company**<br>**30 June 2008** | **Loans and receivables HK$'000** | **Assets at fair value through profit and loss HK$'000** | **Held-to-maturity HK$'000** | **Available-for-sale HK$'000** | **Total HK$'000** |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Available-for-sale financial assets | – | – | – | 65,151 | 65,151 |
| Other financial assets | – | 1,010 | 22,369 | – | 23,379 |
| Investments held for trading | – | 8,435 | – | – | 8,435 |
| Due from subsidiaries | 57,886 | – | – | – | 57,886 |
| Financial assets included in other receivables | 105 | – | – | – | 105 |
| Cash and bank balances | 34,986 | – | – | – | 34,986 |
| | 92,977 | 9,445 | 22,369 | 65,151 | 189,942 |

| **Company**<br>**30 June 2008** | **Financial liabilities at amortised cost HK$'000** |
|---|---|
| **Financial liabilities** | |
| Financial liabilities included in other payables and accrued charges | 4,045 |

| **Company**<br>30 June 2007 | Loans and receivables HK$'000 | Assets at fair value through profit and loss HK$'000 | Available-for-sale HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Available-for-sale financial assets | – | – | 63,263 | 63,263 |
| Investments held for trading | – | 7,916 | – | 7,916 |
| Due from subsidiaries | 81,471 | – | – | 81,471 |
| Financial assets included in other receivables | 94 | – | – | 94 |
| Cash and bank balances | 6,913 | – | – | 6,913 |
| | 88,478 | 7,916 | 63,263 | 159,657 |

## 31. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows: *(Continued)*

| **Company**<br>30 June 2007 | Financial liabilities at amortised cost<br>HK$'000 |
|---|---|
| **Financial liabilities** | |
| Financial liabilities included in other payables and accrued charges | 465 |

## 32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The RCCC is responsible for establishing and reviewing credit policies and procedures to minimise 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.

### Interest rate risk

The Group had short-term borrowings for the subscription of new shares, with an interest rate fixed with the banks upon withdrawal. Hence, the Group has minimal interest-rate risk exposure in this regard. The interest rate risk exposure arises mainly from the margin financing to the Group's securities margin clients and the loans and advances to entities. The interest rates charged and the margin ratio allowed to the Group's 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.

***Sensitivity analysis***

The sensitivity analysis below has been determined assuming that a reasonably possible change in interest rates, with all other variables held constant had occurred at the balance sheet date and had been applied to all financial instruments that would have affected the profit or loss and equity. The analysis is performed on the same basis for 2007.

At balance sheet date, if interest rates had been 25 basic point higher/lower and all other variables were held constant, the Group's profit before tax would increase by HK$123,000 or decrease by HK$92,000 *(2007: increase/decrease by HK$215,000)*, but there would be no impact on the other equity reserves.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for all financial instruments in existence at that date. The 25 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date.

## 32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### 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 20 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.

As the Group's accounts receivable relate to a large number of diversified customers, there is no significant concentration of credit risk.

The Group's other financial assets, including bank balances, loans and advances and other receivables have a maximum exposure of credit risk equal to the carrying amounts of these instruments.

### Foreign currency risk

The Group's foreign currency exposures arise mainly from the exchange rate movements of Japanese Yen and United States dollar.

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.

The Group considers the risk exposure to foreign currency fluctuation would be minimal as long as the Hong Kong dollar remains pegged to the United States dollar. The analysis is performed on the same basis for 2007.

### 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.

The maturity profile of the financial liabilities of the Group and the Company at the balance sheet date based on contractual undiscounted payments are summarised below:

| Group | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|
| | **Less than 3 months or on demand HK$'000** | **3 to 12 months HK$'000** | **Total HK$'000** | Less than 3 months or on demand HK$'000 | 3 to 12 months HK$'000 | Total HK$'000 |
| Interest-bearing borrowings | **–** | **–** | **–** | 156,071 | – | 156,071 |
| Accounts payable | **22,360** | **–** | **22,360** | 51,734 | – | 51,734 |
| Other payables and accrued charges | **9,715** | **4,152** | **13,867** | 8,866 | 3,640 | 12,506 |
| | **32,075** | **4,152** | **36,227** | 216,671 | 3,640 | 220,311 |

## 32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### Liquidity risk *(Continued)*

| Company | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|
| | Less than 3 months or on demand HK$'000 | 3 to 12 months HK$'000 | Total HK$'000 | Less than 3 months or on demand HK$'000 | 3 to 12 months HK$'000 | Total HK$'000 |
| Other payables and accrued charges | 3,829 | 216 | 4,045 | 276 | 189 | 465 |

### Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the values of individual securities. The Group is exposed to equity price risks arising from individual equity investments classified as available-for-sale investments and investments held for trading as at 30 June 2008, details of which have been set out in notes 15 and 19 to the financial statements respectively. The Group's listed investments are listed on the Stock Exchange and are valued at quoted market prices at the balance sheet date.

The market equity index for Hong Kong Stock Exchange at the close of business of the nearest trading day in the year to the balance sheet date, and its respective highest and lowest points during the year were as follows:

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | 30 June | High/Low from 1 July 2007 to 30 June 2008 | 30 June | High/Low from 1 July 2006 to 30 June 2007 |
| Hong Kong – Hang Seng Index | 22,102 | 31,958/19,387 | 21,773 | 22,086/15,949 |

***Sensitivity analysis***

The sensitivity analysis below has been determined assuming that the reasonably possible changes in the fair value of equity investments, with all other variables held constant had occurred at the balance sheet date and had been applied to the exposure to equity price risk in existence at that date. The analysis is performed on the same basis for 2007.

At the balance sheet date, to sensitivity of 10% higher/lower with all other variables held constant, the Group's profit before tax would be increased/decreased by HK$844,000 *(2007: HK$792,000)*. Investment revaluation reserve would be increased/decreased by HK$9,241,000 *(2007: HK7,808,000)* as a result of changes in fair value of available-for-sale investments. For the purpose of this analysis, for the available-for-sale investments, no account is given for factors such as impairment which might impact on the income statement.

## 32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### Risk associated with futures contracts

At balance sheet date, the Group had off-balance sheet proprietary trading financial instruments outstanding, namely, equity index, commodity and currency futures contracts. The contractual or notional amounts of the Group's trading futures contracts outstanding at balance sheet date were as follows:

| | Group Contractual/ notional amount | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Long position with maturity | | |
| Within 3 months | **103,322** | 89,282 |
| Longer than 3 months but within 6 months | **–** | 23,051 |
| | **103,322** | 112,333 |
| Short position with maturity | | |
| Within 3 months | **25,520** | 1,654 |
| Longer than 3 months but within 6 months | **1,716** | 39,090 |
| | **27,236** | 40,744 |

The financial instruments become favorable or unfavorable as a result of fluctuations in market price of the underlying instruments relative to their terms.

Notional amounts of these financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amount of future cash flows involved and, therefore, are not a representation of the Group's exposure to the price risk.

### Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transaction.

The directors consider that the carrying amounts of financial assets and financial liabilities in the consolidated financial statements approximate their carrying value.

## 33. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern in order to support the Group's growth an maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions, future capital requirement of the Group and investment opportunities. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives policies or processes during the years ended 30 June 2008 and 30 June 2007.

## 33. CAPITAL MANAGEMENT *(Continued)*

The Group is not subject to any externally imposed capital requirements except for certain subsidiaries engaged in securities and futures dealings and broking, corporate finance and investment advisory services and insurance agency and broking services which are regulated entities under the Securities and Futures Commission of Hong Kong, the Hong Kong Confederation of Insurance Brokers and Professional Insurance Brokers Association Limited subject to the respective minimum capital requirements.

The Group monitors capital using a gearing ratio, which is total borrowings divided by the total shareholders' equity. The Group's policy is to maintain the gearing ratio at a reasonable level. As at the balance sheet date the Group had no bank borrowings resulting in zero gearing ratio. At 30 June 2007, there was a bank borrowings of HK$156 million for financing clients' IPO subscriptions which resulted in a gearing ration of 65.4%.

## 34. COMMITMENTS

### Capital expenditure commitments

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Contracted but not provided net of deposits paid in the financial statements for the purchase of computer equipment | **735** | 836 |
| Contracted but not provided net of deposits paid in the financial statements for office renovation work | **579** | – |
| Contracted to acquire listed shares as available-for-sale financial assets | **–** | 5,000 |
| | **1,314** | 5,836 |

### 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 | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Within one year | **7,766** | 3,389 |
| In the second to fifth year inclusive | **13,946** | 39 |
| | **21,712** | 3,428 |

## 35. CONTINGENT LIABILITIES

(a) The Company had corporate guarantee of HK$850,500,000 *(2007: HK$190,500,000)* for bank facilities granted to subsidiaries from banks, which were utilised to the extent of HK$Nil *(2007: HK$156,000,000)* at the balance sheet date.

The Company has not recognised any deferred income for the corporate guarantee given in respect of the banking facilities for subsidiaries as their fair value cannot be reliably measured and their transactions price was zero.

At the balance sheet date, the directors do not consider probable that a claim will be made against the Company under any of the guarantee.

(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 *(2007: 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 2007 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 2008 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.

(d) A demand letter was issued by a former client of Tanrich Futures Limited ("TFL"), an independent third party, in July 2007. As stated in the demand letter together with a subsequent draft statement of claim, the former client claimed primarily that she had suffered loss and damage as a result of misrepresentations and breach of duties to advice by TFL. The Group is presently engaged in settlement discussions and the Directors are of the view that it is not possible to estimate the settlement amount at this stage.

## 36. POST BALANCE SHEET EVENTS

Other than disclosed elsewhere in these financial statements, on 3 July 2008, the board of directors resolved to subscribe 13,000 participating shares of a private equity fund of US$0.01 each at an issue price of US$100. The total consideration of US$1,300,000 was paid in July 2008.

# Five-year Financial Summary

The following is a summary of the published results and of the assets and liabilities of the Group for five years ended 30 June 2008 on the basis set out in the note below.

## RESULTS:

| | Financial Year Ended 30 June | | | | |
|---|---|---|---|---|---|
| | 2004<br>HK$'000 | 2005<br>HK$'000 | 2006<br>HK$'000 | 2007<br>HK$'000 | **2008**<br>**HK$'000** |
| Turnover | 132,373 | 78,741 | 69,287 | 102,364 | **114,809** |
| Profit (Loss) before taxation | 28,853 | (11,848) | 7,589 | 14,008 | **12,169** |
| Taxation | (2,585) | 737 | (3,328) | (30) | **495** |
| Profit (Loss) for the year | 26,268 | (11,111) | 4,261 | 13,978 | **12,664** |
| Attributable to: | | | | | |
| Equity holders of the Company | 26,282 | (11,056) | 4,242 | 13,978 | **12,664** |
| Minority interest | (14) | (55) | 19 | – | **–** |
| | 26,268 | (11,111) | 4,261 | 13,978 | **12,664** |
| Dividends | 4,000 | – | – | 5,593 | **5,626** |

## ASSETS AND LIABILITIES:

| | Assets and liabilities as at 30 June | | | | |
|---|---|---|---|---|---|
| | 2004<br>HK$'000 | 2005<br>HK$'000 | 2006<br>HK$'000<br>(Restated) | 2007<br>HK$'000 | **2008**<br>**HK$'000** |
| Non-current assets | 30,018 | 49,611 | 49,721 | 82,111 | **124,169** |
| Current assets | 181,257 | 127,306 | 149,315 | 393,861 | **203,888** |
| Total assets | 211,275 | 176,917 | 199,036 | 475,972 | **328,057** |
| Current liabilities | (75,410) | (48,701) | (47,575) | (237,446) | **(36,227)** |
| Non-current liabilities | (56) | (20) | – | – | **–** |
| Total liabilities | (75,466) | (48,721) | (47,575) | (237,446) | **(36,227)** |
| Total net assets | 135,809 | 128,196 | 151,461 | 238,526 | **291,830** |
| Current ratio | 2.40 | 2.61 | 3.14 | 1.66 | **5.63** |
| Gearing ratio | 0% | 0% | 0% | 65.4% | **0%** |