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## INTERIM RESULTS

The Board of Directors (“the Board”) of Tanrich Financial Holdings Limited (the “Company”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (“Tanrich” or the “Group”) for the six months ended 31st December 2002 with comparative figures of the previous period which are set out on pages 9 to 24 of this report.

## INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK1 cent per share for the financial year ending 30th June 2003 to the shareholders whose names appear on the Register of Members at the close of business on Friday, 25th April 2003.

The Register of Members of the Company will be closed from Tuesday, 22nd April 2003 to Friday, 25th April 2003, both days inclusive. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company’s Hong Kong share registrars, Computershare Hong Kong Investor Services Limited at rooms 1901-1905, 19th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:00 p.m. on Thursday, 17th April 2003.

## REVIEW OF OPERATIONS AND RESULTS

Despite some of the worst market conditions seen in years, the looming impact of the Iraq war, poor market and investment sentiment, the Group still managed to record HK\$6.6 million profit attributable to shareholders (2001: HK\$17.4 million), representing a 62% drop from the corresponding period of last year. Nonetheless, the turnover only fell 16% to HK\$64.4 million as compared to the corresponding period last year (2001: HK\$76.7 million).

### Futures

- Despite expanded the branch in Central, the Group fell short of its original sales target during the period under review. As a result, the commission income and operating profit derived from broking in Japanese commodity futures contracts for the period only amounted to HK\$56.3 million and HK\$13.3 million respectively (2001: HK\$66.2 million and HK\$23.1 million respectively), representing a decrease of 15% and 42% respectively over the corresponding period of last year.

- The Group is committed to offering quality new products. The commission income and operating profit derived from broking in US Exchanges futures contracts including Eurodollar deposit, foreign exchange and commodity futures for the period amounted to HK\$3.2 million and HK\$0.5 million respectively (2001: HK\$0.4 million and HK\$0.2 million), representing significant increases of 8 times and 2.5 times respectively as compared to the corresponding period of last year.

### Securities and margin financing

- Battered by the prolonged global economic recession, the Hong Kong stock market and the local economy remained sluggish during the period. The total income derived from securities broking and margin financing for the period dropped 15% to HK\$2.9 million (2001: HK\$3.4 million) and operating losses incurred amounted to HK\$2.6 million (2001: HK\$3.5 million).

### Asset management and corporate finance

- Although the businesses in this segment are still at the development stage, the Group achieved a turnover of HK\$1.6 million (2001: HK\$1.3 million), representing an increase of 23% over the last corresponding period. This increase was encouraging although results from this segment are still in negative territory.

## FINANCIAL LIQUIDITY AND RESOURCES

The Group's policy is to maintain a healthy financial position such that cash generated from operations together with undrawn banking facilities should meet the requirements of both the Financial Resources Rules and necessary capital expenditure. Furthermore, a sufficient amount of liquid funds is maintained to meet proposed development needs of the businesses. The Group is mainly financed by the shareholders' funds and a lesser extent, bank loans. As at 31st December 2002, the Group had short term bank loans amounted to HK\$3.5 million, repayable within three months (30th June 2002: HK\$0.2 million, repayable on demand).

- The gearing ratio, representing the ratio of total borrowings to the total share capital and reserves of the Group, was 3% as at 31st December 2002 (30th June 2002: 0.2%).

- The Group had aggregate banking facilities of HK\$101 million as at 31st December 2002 (30th June 2002: HK\$86 million) composing of HK\$85 million, the draw down of which is subject to the pledged value of marketable securities, and HK\$16 million general banking facilities. These banking facilities were secured by the followings:
  - i. Marketable securities with a market value amounting to HK\$45 million. These marketable securities were beneficially owned by Tanrich Securities Company Limited (“TSCL”) and its securities margin clients.
  - ii. Corporate guarantees issued by the Company, Tanrich Futures Limited and TSCL.

## **NON-TRADING INVESTMENTS**

As at 31st December 2002, the Group had non-trading investments which are listed equities in Hong Kong and recorded at fair value in the accounts for the amount of HK\$21.5 million (30th June 2002: HK\$16.8 million).

## **EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES**

- The Group has exposure to foreign exchange fluctuation as a result of placing margin deposits in Japanese Yen with two designated futures commission merchants in Japan on behalf of its clients in Hong Kong. According to the Group’s hedging policy, the Group hedges at least 80% of its net foreign exposure with the use of USD/JPY foreign exchange deferred trading in order to reduce or limit its foreign exchange risk.
- As at 31st December 2002, the total margin deposit placed with the two designated futures commission merchants was 1,299 million Japanese Yen (30th June 2002: 2,089 million Japanese Yen), which was equivalent to HK\$85.3 million (30th June 2002: HK\$136.2 million). This amount was hedged with USD/JPY foreign exchange deferred trading which was equivalent to an aggregate amount of US\$10 million, (30th June 2002: US\$15.5 million), representing 91.4% of the Group’s net foreign exposure as at 31st December 2002 (30th June 2002: 88.6%).

## CONTINGENT LIABILITIES

At the date of this report, the Company has issued corporate guarantees to banks for the total amount of HK\$101 million in respect of banking facilities granted to its subsidiaries. As at 31st December 2002, the aggregate bank loan drawn was HK\$3.5 million (30th June 2002: HK\$0.2 million).

## EMPLOYEES

As at 31st December 2002, the Group employed 214 full-time employees and their remuneration packages in accordance with the nature of their duties are maintained at market competitive levels. They are rewarded on an individual performance basis or based on the Group's results under the general framework of the Group's bonus system. Share options of the Company are granted to certain employees of the Group. The Group regularly conducts staff training and enterprise culture activities in order to enhance staff quality and teamwork spirit.

## DISCLOSURE UNDER PRACTICE NOTE 19

As at 31st December 2002, the Group had amounts receivable from one of its designated brokers in Japan amounted to HK\$66.9 million (30th June 2002: HK\$68 million), representing 65% (30th June 2002: 62%) of the net assets of the Group. The amount represented margin deposits maintained with the designated broker by a subsidiary of the Company for trading of Japanese commodity futures on the Tokyo Grain Exchange ("TGE") and Tokyo Commodity Exchange ("TOCOM") on behalf of clients. The amount is unsecured, non-interest bearing and repayable on demand subject to the margin deposit requirements.

## PLANS AND PROSPECTS

The Group will continue strengthening its leading position in the Japanese commodity futures business. At the same time, we are also expanding into the US commodity and financial futures business. So far, the result has been encouraging. In addition to conventional investment products such as equity-linked notes, equities and bonds, we shall strive to introduce more new products from different markets so as to diversify our income source.

As regards to business development, the Group has brought on board professionals in securities, insurance and corporate finance to head these units. Along that direction, Tanrich Capital Limited was incorporated in August last year to carry out financial advisory and corporate finance activities. On the insurance front, new products are under review and some would be due to launch soon.

The Board believes that when the region's economy recovers, Tanrich will be one of the forerunners in the financial services sector to provide encouraging returns to shareholders.

## SUPPLEMENTARY INFORMATION

### Directors' interests in shares

At the date of this report, the interests of the directors and their associates in the share capital of the Company and its associated corporations within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as notified to the Company were as follows:

	Number of shares				Total
	Personal interests	Family interests	Corporate interests	Other interests	
Yip Man Fan	–	7,500,000 <i>(Note 1)</i>	120,000,000 <i>(Note 2)</i>	–	127,500,000
Toru Tsunoyama	22,500,000	–	–	–	22,500,000

Notes:

- Shares are held by Ms. Tang Yuk Lan, the spouse of Mr. Yip Man Fan.
- Shares are held by discretionary trusts of which Mr. Yip Man Fan and members of his family are beneficiaries.

### Directors' interests in options

The following directors of the Company have interests in share options to subscribe for shares in the Company:

	Number of shares issuable under the share option scheme
Yip Man Fan	2,000,000
Kwok Kam Hoi	2,000,000
Toru Tsunoyama	1,950,000
Sin Wai Chiu, Joseph	600,000

The share options are exercisable at the subscription price of HK\$0.72 per share and exercisable at any time from 22nd February 2003 to 7th January 2012.

Save as disclosed above, none of the directors of the Company nor their spouses or children under 18 years of age had any interests in, or had been granted or exercised, any rights to subscribe for any shares of the Company or any of its associated company during the year.

Save as disclosed above, at no time during the year was the Company or its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

### Substantial shareholders

At the date of this report, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the directors.

<b>Name of shareholder</b>	<i>Note</i>	<b>Number of ordinary shares</b>	<b>Percentage of holding</b>
Aceland Holdings Ltd.	1 & 2	120,000,000	60.00%
Redwood Pacific Limited	2 & 5	120,000,000	60.00%
HSBC International Trustee Limited	3 & 5	120,000,000	60.00%
HSBC Private Banking Holdings (Suisse) SA	4 & 5	120,000,000	60.00%
HSBC Europe (Netherlands) BV	4 & 5	120,000,000	60.00%
HSBC Europe BV	4 & 5	120,000,000	60.00%
Griffin International Limited	4 & 5	120,000,000	60.00%
Midcorp Limited	4 & 5	120,000,000	60.00%
HSBC Bank plc	4 & 5	120,000,000	60.00%
HSBC Holdings plc	4 & 5	120,000,000	60.00%
Tang Yuk Lan	6	127,500,000	63.75%
Toru Tsunoyama		22,500,000	11.25%

*Notes:*

1. Aceland Holdings Ltd. is the trustee of The Yip Unit Trust, which holds 60% 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. HSBC International Trustee Limited is a beneficially wholly owned subsidiary of HSBC Private Banking Holdings (Suisse) SA, HSBC Europe (Netherlands) BV, HSBC Europe BV, Griffin International Limited, Midcorp Limited, HSBC Bank plc and HSBC Holdings plc.
5. Under the SDI Ordinance, each of Redwood Pacific Limited, HSBC International Trustee Limited, HSBC Private Banking Holdings (Suisse) SA, HSBC Europe (Netherlands) BV, HSBC Europe BV, Griffin International Limited, Midcorp Limited, HSBC Bank plc and HSBC Holdings plc is taken to have an interest in the same 120,000,000 ordinary shares held by Aceland Holdings Ltd. These shares therefore duplicate each other.
6. Ms. Tang Yuk Lan is the spouse of Mr. Yip Man Fan. Under the SDI Ordinance, each of Mr. Yip Man Fan and Ms. Tang Yuk Lan is taken to have interest in the shares held by each other. These shares therefore duplicate each other.

### **Purchase, sale or redemption of shares**

During the six months ended 31st December 2002, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's own shares.

### **Corporate governance**

None of the directors of the Company is aware of any information which would indicate that the Group is not, or was not, in compliance with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") at any time during the six months ended 31st December 2002.

### **Audit committee**

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the unaudited interim accounts for the six months ended 31st December 2002.

## CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 31st December 2002

		<b>Unaudited</b>	
		<b>Six months ended</b>	
		<b>31st December</b>	
		<b>2002</b>	2001
	<i>Note</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
Turnover	2	<b>64,441</b>	76,702
Other revenues		<b>815</b>	177
		<u>65,256</u>	<u>76,879</u>
Salaries, allowances and bonus	3	<b>(20,597)</b>	(21,097)
Staff commission		<b>(12,193)</b>	(13,850)
Operating leases on land and buildings		<b>(7,332)</b>	(5,545)
Brokerage commission		<b>(5,197)</b>	(5,400)
(Provision)/write back for bad and doubtful debts		<b>(8)</b>	29
Depreciation		<b>(1,782)</b>	(1,367)
Loss on disposal of fixed assets		<b>(688)</b>	(20)
Other operating expenses		<b>(8,480)</b>	(7,173)
Operating profit	2	<b>8,979</b>	22,456
Finance cost		<b>(245)</b>	(596)
Profit before taxation		<b>8,734</b>	21,860
Taxation	4	<b>(2,125)</b>	(4,442)
Profit attributable to shareholders		<b><u>6,609</u></b>	<b><u>17,418</u></b>
Dividends	5	<b><u>11,000</u></b>	<b><u>16,000</u></b>
Basic earnings per share (cents)	6	<b><u>3.30</u></b>	<b><u>11.61</u></b>

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 31st December 2002 and 30th June 2002

		Unaudited 31st December 2002 <i>HK\$'000</i>	Audited 30th June 2002 <i>HK\$'000</i>
	<i>Note</i>		
<b>Non-current assets</b>			
Fixed assets		2,978	4,263
Other assets		1,900	1,850
Non-trading investments	7	21,511	16,782
Loans and advances		210	280
		<u>26,599</u>	<u>23,175</u>
<b>Current assets</b>			
Loans and advances		335	384
Accounts receivable	8	102,386	102,971
Deposits, prepayments and other receivables		10,914	17,699
Cash and bank balances	9	64,228	74,737
		<u>177,863</u>	<u>195,791</u>
<b>Current liabilities</b>			
Accounts payable	10	82,337	81,412
Other payables and accrued liabilities		4,655	17,213
Taxation payable		10,654	9,791
Bank loans and overdrafts		3,500	222
		<u>101,146</u>	<u>108,638</u>
<b>Net current assets</b>		<u>76,717</u>	<u>87,153</u>
<b>Total assets less current liabilities</b>		<u><u>103,316</u></u>	<u><u>110,328</u></u>
Financed by:			
<b>Share capital</b>	11	20,000	20,000
<b>Reserves</b>	12	83,316	90,328
		<u><u>103,316</u></u>	<u><u>110,328</u></u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31st December 2002

	Unaudited	
	Six months ended	
	31st December	
	2002	2001
	HK\$'000	HK\$'000
Net cash generated from operating activities	<u>4,162</u>	<u>39,184</u>
Net cash (used in)/generated from investing activities	<u>(8,704)</u>	<u>753</u>
Net cash used in financing activities	<u>(9,245)</u>	<u>(9,596)</u>
(Decrease)/increase in cash and cash equivalents	<b>(13,787)</b>	30,341
Cash and cash equivalents at 1st July	<u>74,515</u>	<u>(21,106)</u>
Cash and cash equivalents at 31st December	<b><u>60,728</u></b>	<b><u>9,235</u></b>
<b>Analysis of balances of cash and cash equivalents</b>		
Cash and bank balances	<b>64,228</b>	19,136
Bank loans and overdrafts (secured)	<b>(3,500)</b>	(9,901)
	<b><u>60,728</u></b>	<b><u>9,235</u></b>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31st December 2002

	Share capital HK\$'000	Share premium HK\$'000	Unaudited		Retained earnings HK\$'000	Total HK\$'000
			Capital reserve HK\$'000	Investment revaluation reserve HK\$'000		
At 1st July 2002	20,000	17,137	40,836	16,602	15,753	110,328
Change in fair value of non-trading investments	-	-	-	(4,621)	-	(4,621)
Profit for the period	-	-	-	-	6,609	6,609
Dividend (Note 5)	-	-	-	-	(9,000)	(9,000)
At 31st December 2002	<u>20,000</u>	<u>17,137</u>	<u>40,836</u>	<u>11,981</u>	<u>13,362</u>	<u>103,316</u>
At 1st July 2001	178	-	39,832	17,974	1,428	59,412
Arising from reorganisation	-	-	1,000	-	-	1,000
Change in fair value of non-trading investments	-	-	-	(2,677)	-	(2,677)
Profit for the period	-	-	-	-	17,418	17,418
Dividend (Note 5)	-	-	-	-	(10,000)	(10,000)
At 31st December 2001	<u>178</u>	<u>-</u>	<u>40,832</u>	<u>15,297</u>	<u>8,846</u>	<u>65,153</u>

# NOTES TO CONDENSED CONSOLIDATED INTERIM ACCOUNTS

## 1. Basis of preparation and accounting policies

These unaudited condensed consolidated interim accounts (“Interim Accounts”) are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants, and Appendix 16 of the Listing Rules.

These Interim Accounts should be read in conjunction with the 2002 annual financial statements of the Company.

The accounting policies and methods of computation used in the preparation of these Interim Accounts are consistent with those used in the annual accounts for the year ended 30th June 2002 except that the Group has changed certain of its accounting policies following its adoption of the following SSAPs issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1st January 2002:

SSAP 1 (revised):	Presentation of financial statements
SSAP 15 (revised):	Cash flow statements
SSAP 25 (revised):	Interim financial reporting
SSAP 34 (revised):	Employee benefits

The changes to the Group’s accounting policies and the effect of adopting these new policies is set out below:

### **SSAP 34 Employee Benefits**

#### *(1) Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

#### *(2) Profit sharing and bonus plans*

Liabilities for profit sharing and bonus plans due wholly within twelve months after the balance sheet date are recognised when the Group has a present or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

(3) *Pension obligations*

The Group's contributions to a defined contribution retirement scheme and a mandatory provident fund scheme are expensed as incurred. These contributions are reduced by past contributions forfeited by employees who leave the relevant scheme prior to full vesting of the contributions. The assets of the schemes are held separately from those of the Group in independently administered funds.

(4) *Equity compensation benefits*

Share options of the Company are granted to certain directors and to certain employees under the share option scheme. Equity compensation benefits resulting from the issue of share options to the Group's employees at less than the fair value at which those instruments would be issued to a third party are not recognised in the Group's accounts.

## 2. Segmental information

An analysis of the Group's turnover and contribution to operating profit by principal activities is as follows:

### PROFIT AND LOSS ACCOUNT FOR THE SIX MONTHS ENDED 31ST DECEMBER 2002

	Futures broking HK\$'000	Securities broking HK\$'000	Securities margin financing HK\$'000	Corporate finance HK\$'000	Asset manage- ment services HK\$'000	Money lending HK\$'000	Proprietary trading HK\$'000	Other operation HK\$'000	Con- solidated HK\$'000
TURNOVER	<u>59,704</u>	<u>1,687</u>	<u>1,188</u>	<u>11</u>	<u>1,629</u>	<u>31</u>	<u>63</u>	<u>128</u>	<u>64,441</u>
RESULT	<u>13,860</u>	<u>(1,543)</u>	<u>(1,049)</u>	<u>(1,345)</u>	<u>(1,050)</u>	<u>(47)</u>	<u>54</u>	<u>99</u>	8,979
Finance cost									(245)
Taxation									<u>(2,125)</u>
Profit attributable to shareholders									<u>6,609</u>

## PROFIT AND LOSS ACCOUNT FOR THE SIX MONTHS ENDED 31ST DECEMBER 2001

	Futures broking HK\$'000	Securities broking HK\$'000	Securities margin financing HK\$'000	Corporate finance HK\$'000	Asset manage- ment services HK\$'000	Money lending HK\$'000	Proprietary trading HK\$'000	Other operation HK\$'000	Con- solidated HK\$'000
TURNOVER	<u>68,934</u>	<u>2,325</u>	<u>1,070</u>	<u>23</u>	<u>1,304</u>	<u>280</u>	<u>2,766</u>	<u>-</u>	<u>76,702</u>
RESULT	<u>25,306</u>	<u>(2,429)</u>	<u>(1,118)</u>	<u>(1,053)</u>	<u>(1,220)</u>	<u>220</u>	<u>2,750</u>	<u>-</u>	22,456
Finance cost									(596)
Taxation									<u>(4,442)</u>
Profit attributable to shareholders									<u>17,418</u>

No geographical reporting is provided as less than 10% of the consolidated turnover and consolidated trading results of the Group are derived from markets outside Hong Kong.

### 3. Staff cost

	Six months ended 31st December	
	2002 HK\$'000	2001 HK\$'000
Salaries and allowances	<b>19,971</b>	20,325
Pension cost – defined contribution plans	<b>626</b>	772
	<u><b>20,597</b></u>	<u>21,097</u>

### 4. Taxation

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profit for the period.

All profits of the Group were generated from Hong Kong. No overseas taxation has been provided.

## 5. Dividends

	Six months ended 31st December	
	2002	2001
	HK\$'000	HK\$'000
Final dividend paid:		
HK4.5 cents (2001: Nil) per ordinary share ( <i>Note a</i> )	9,000	–
Dividend paid by a subsidiary of the Company to its then shareholders prior to the Group's reorganisation and the listing of the Company's shares on The Stock Exchange of Hong Kong Limited	–	10,000
Interim dividend proposed:		
HK1 cent (2001: HK3 cents) per ordinary share ( <i>Note b</i> )	<u>2,000</u>	<u>6,000</u>
	<u>11,000</u>	<u>16,000</u>

*Note (a):* At a board meeting held on 9th September 2002, the Board declared a final dividend of HK4.5 cents (2001: Nil) per ordinary share for the year ended 30th June 2002, which was paid on 18th October 2002.

*Note (b):* At a board meeting held on 25th March 2003, the Board declared an interim dividend of HK1 cent per ordinary share for the year ending 30th June 2003. This proposed dividend is not reflected as a dividend payable in these Interim Accounts, but will be reflected as an appropriation of retained earnings for the year ending 30th June 2003.

## 6. Earnings per share

The calculation of the basic earnings per share for the six months ended 31st December 2002 is based on the consolidated profit attributable to shareholders of HK\$6,609,000 (2001: HK\$17,418,000) and 200,000,000 ordinary shares in issue during the period (2001: 150,000,000 ordinary shares).

Diluted earnings per share for the six months ended 31st December 2002 and 2001 were not disclosed as there were no dilutive potential ordinary shares.

## 7. Non-trading investments

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

## 8. Accounts receivable

	<b>31st December</b>	30th June
	<b>2002</b>	2002
	<b>HK\$'000</b>	<b>HK\$'000</b>
Accounts receivable arising from the ordinary course of business of broking in securities and futures contracts:		
– securities cash clients	<b>1,066</b>	906
– securities clearing house, brokers and dealers	–	869
– futures clearing house, brokers and dealers		
– Hong Kong Futures Exchange Clearing Corporation Limited (“HKFECC”)	<b>1,251</b>	1,196
– brokers for commodity futures contracts on TGE and TOCOM	<b>71,790</b>	71,470
– brokers for commodity futures contracts on other overseas exchanges	<b>3,791</b>	8,315
Accounts receivable from securities margin clients	<b>24,200</b>	20,143
Accounts receivable arising from provision of unit trust and insurance-linked products agency services	<b>288</b>	72
	<b>102,386</b>	102,971

The accounts receivable from HKFECC excludes a deposit of HK\$844,000 (30th June 2002: HK\$412,000) relating to the clients’ monies.

### *Credit policy for securities margin financing activities*

Accounts receivable from securities margin clients represents loans granted to the securities margin clients by a subsidiary of the Company, TSCL. These loans are collateralised by stocks pledged to TSCL.

Credit limit is set for each client based on their financial and trading credibility. The credit limit is approved by the credit control committee working group (“CCCWG”). The clients are allowed to trade only after the account opening and credit limit approval processes have been completed. Loans are granted to securities margin clients on the condition that they pledge approved stocks with TSCL.

All approved stocks are assigned with specific margin ratios, which are determined by the credit control committee (“CCC”), for calculating the stock margin values. CCC reviews and determines the margin ratios for the stock collateral with reference to the recommendations from CCCWG on a periodic basis.

If the amount of loan outstanding is higher than the eligible stock margin value, TSCL will call additional funds from the securities margin clients.

CCCWG is responsible for monitoring the credit risk and margin call on a daily basis. It reviews the overall risk and credit control on a bi-weekly basis. CCC decides the actions to be taken for the clients, should the securities margin clients fail to meet the margin call, based on the margin call amount, the pledged securities value, the client credit worthiness and the overdue period.

The directors also monitor the margin call amount. Provision is made for loans which are considered to be doubtful.

#### *Settlement terms*

Accounts receivable arising from the ordinary course of business of broking in futures contracts transactions represents the margin deposit maintained with clearing house or brokers to meet the margin requirements of the open contracts. Margin calls from the clearing houses and brokers are settled on daily basis. The excess amounts over the required margin deposit stipulated are repayable on demand.

Accounts receivable from securities margin clients is secured by clients' pledged securities, are repayable on demand and bear interest at commercial rates. As at 31st December 2002 and 30th June 2002 and, included in the accounts receivable from securities margin clients were overdue margin calls of HK\$10,197,000 and HK\$3,651,000 respectively.

The ageing analysis of the overdue margin call were as follows:

	<b>31st December 2002 HK\$'000</b>	30th June 2002 HK\$'000
Within 30 days	129	–
31 – 90 days	5,013	–
91 – 180 days	1,509	–
181 – 270 days	–	–
271 – 360 days	<u>3,546</u>	<u>3,651</u>
	<u><b>10,197</b></u>	<u><b>3,651</b></u>

Provisions of HK\$3.5 million were made for these overdue margin calls as at 31st December 2002 and 30th June 2002.

The settlement terms of accounts receivable arising from the ordinary course of business of broking in securities transactions are two days after the trade date. As at 31st December 2002 and 30th June 2002, included in the accounts receivable from securities cash clients were receivables not settled on settlement date of HK\$596,000 and HK\$58,000 respectively.

The ageing analysis of the accounts receivable from cash clients which had not been settled on settlement date were as follows:

	<b>31st December 2002 HK\$'000</b>	30th June 2002 HK\$'000
Within 30 days	–	51
31 – 90 days	<b>589</b>	–
91 – 180 days	–	–
Over 180 days	7	7
	<hr/>	<hr/>
	<b><u>596</u></b>	<b><u>58</u></b>

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

## 9. Cash and bank balances

The subsidiaries of the Company maintain trust accounts with authorised institutions as a result of its normal business transactions. At 31st December 2002, trust accounts not otherwise dealt with in these accounts amounted to HK\$41,111,000 (30th June 2002: HK\$40,145,000).

A subsidiary of the Company pledges cash as collateral to an authorised institution from time to time for foreign exchange deferred trading and has pledged HK\$3,899,000 as at 31st December 2002 (30th June 2002: HK\$6,045,000).

## 10. Accounts payable

	<b>31st December 2002 HK\$'000</b>	30th June 2002 HK\$'000
Accounts payable arising from the ordinary course of business of broking in securities and futures contracts:		
– securities cash clients	874	696
– securities margin clients	184	1,730
– securities clearing house, brokers and dealers	5,626	–
– futures clients	75,581	78,974
Accounts payable arising from provision of unit trust and insurance-linked products agency services	72	12
	<u>82,337</u>	<u>81,412</u>

The accounts payable arising in the ordinary course of business of broking in securities and futures contracts are current and repayable on demand.

The accounts payable is stated net of clients' segregated assets of HK\$34,804,000 (30th June 2002: HK\$26,171,000).

## 11. Share capital

	<b>Ordinary Share of HK\$0.1 each No. of shares</b>	<i>HK\$'000</i>
Authorised:		
Balance as at 30th June 2002 and 31st December 2002	<u>1,000,000,000</u>	<u>100,000</u>
Issued and fully paid:		
Balance as at 30th June 2002 and 31st December 2002	<u>200,000,000</u>	<u>20,000</u>

## 12. Reserves

	Investment revaluation reserve <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st July 2001	17,974	–	39,832	1,428	59,234
Change in fair value of non-trading investments	(1,372)	–	–	–	(1,372)
Arising from reorganisation	–	–	1,004	–	1,004
Premium arising from the public offer and placing of shares	–	45,000	–	–	45,000
Capitalisation issue of shares	–	(14,822)	–	–	(14,822)
Share issue expenses	–	(13,041)	–	–	(13,041)
Profit for the year	–	–	–	30,325	30,325
Dividend ( <i>Note 5</i> )	–	–	–	(16,000)	(16,000)
	<u>16,602</u>	<u>17,137</u>	<u>40,836</u>	<u>15,753</u>	<u>90,328</u>
At 30th June 2002					
At 1st July 2002	16,602	17,137	40,836	15,753	90,328
Change in fair value of non-trading investments	(4,621)	–	–	–	(4,621)
Profit for the period	–	–	–	6,609	6,609
Dividend ( <i>Note 5</i> )	–	–	–	(9,000)	(9,000)
	<u>11,981</u>	<u>17,137</u>	<u>40,836</u>	<u>13,362</u>	<u>83,316</u>
At 31st December 2002					
					<i>HK\$'000</i>
<b>Appropriation of retained earnings</b>					
Retained earnings					11,362
Interim dividend proposed					2,000
					<u>13,362</u>

### 13. Related party transactions

During the period, the Group had the following transactions with a related company, Tanrich (Hong Kong) Holdings Limited (“THKL”) and its subsidiaries, Tanrich Real Estate Group Limited (“TREGI”), and Union Light Investment Limited (“ULIL”). These related companies are all controlled by a combination of certain directors of the companies of the Group. These transactions were arisen in the ordinary course of the Group’s business.

		<b>Six months ended 31st December</b>	
		<b>2002</b>	2001
	<i>Note</i>	<b>HK\$’000</b>	<i>HK\$’000</i>
Operating leases on land and buildings	<i>(a)</i>	<b>4,493</b>	3,924
Operating leases on land and buildings	<i>(b)</i>	<b>1,290</b>	–
Depreciation	<i>(c)</i>	<b>1,024</b>	926
Management fee income	<i>(d)</i>	<b>(480)</b>	–
Overhead recharged		–	1,062
Salaries and provident fund recharged		–	4,358
Commission income		–	(808)
Interest income		–	(342)
		<u>          </u>	<u>          </u>

- (a) The amount represented the rental expenses paid by the subsidiaries of the Company to TREGI for the use of office premises. The monthly rentals of these premises were determined with reference to open market rentals.
- (b) The amount represented the rental expenses paid by a subsidiary of the Company to ULIL for the provision of accommodation to a director. The monthly rental of the premise was determined with reference to open market rentals.
- (c) The amount represented the depreciation charge that should be borne by the Group for its use of fixed assets and share of renovation expenses. The depreciation charge was calculated on the direct cost allocation method.
- (d) The amount represented the staff cost charged to THKL on fixed amount for the management and personnel supportive services provided by the Group.

## 14. Commitments and contingent liabilities

### (i) Commitments under operating leases

The Group had future aggregate minimum lease payments under non-cancellable operating lease as follows:

	<b>31st December 2002 HK\$'000</b>	30th June 2002 HK\$'000
Land and buildings		
Not later than one year	<b>9,301</b>	3,414
Later than one year and not later than five years	<b>5,686</b>	5,176
	<b><u>14,987</u></b>	<b><u>8,590</u></b>

In addition to the above non-cancellable tenancy agreements, the subsidiaries of the Company entered into tenancy agreements with a related company, TREGI. Under these tenancy agreements, one month notice is required to be given by the subsidiaries of the Company in case of termination of the leases. The total amount of monthly rental and management fees is HK\$580,000 (30th June 2002: HK\$478,000)

### (ii) Other commitments

The Company has issued corporate guarantees to banks for the total amount of HK\$101 million in respect of banking facilities granted to its subsidiaries. As at 31st December 2002, the aggregate bank loan drawn was HK\$3,500,000 (30th June 2002: HK\$200,000).

### (iii) Derivatives financial instruments

The following table provides a detail breakdown of the contractual or notional amounts and the fair values of derivatives financial instruments outstanding at 31st December 2002:

	<b>Contract/notional amount HK\$'000</b>	<b>Fair value included in accounts receivable/ (payable) HK\$'000</b>
As at 31st December 2002		
Equity index futures contracts – Trading	<b><u>4,644</u></b>	<b><u>2</u></b>
Foreign exchange contracts – Hedging	<b><u>77,980</u></b>	<b><u>(5,577)</u></b>

	Contract/notional amount <i>HK\$'000</i>	Fair value included in accounts receivable/ (payable) <i>HK\$'000</i>
As at 30th June 2002		
Equity index futures contracts – Trading	<u>1,061</u>	<u>(1)</u>
Foreign exchange contracts – Hedging	<u>120,900</u>	<u>(7,588)</u>

The notional amounts of these financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, are not a representation of the Company's exposure to the market risk. Since all contracts are collateralised by cash and changes in the futures contract value are settled daily with the HKFECC and the authorised institution, the credit risk is negligible.

The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market prices, interest rates or foreign exchange rates relative to their terms. The extent to which instruments are favourable or unfavourable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

## 15. Subsequent events

There were no significant events subsequent to 31st December 2002.

On behalf of the Board

**Yip Man Fan**

*Chairman*

Hong Kong, 25th March 2003