

Management Discussion and Analysis

BUSINESS REVIEW

Overview

For the year ended 31st December, 2000, the Group's turnover increased by approximately 34.8% to approximately HK\$117.2 million as compared to the corresponding figure for 1999, whereas the profit attributable to shareholders only increased by approximately 9.1% to approximately HK\$30.7 million as compared to the corresponding figure for 1999. The favourable contributions from the increase in commission income and interest income together with the realised gain on disposal of shares in the HKEC in 2000 and the bad debt recovery of approximately HK\$5.2 million were mostly offset by the recognition of an unrealised loss on revaluation of other investments of approximately HK\$11.6 million, a doubtful debt provision of approximately HK\$13.4 million and the increase in operating costs due to the expansion of asset management division, corporate finance division and research division. The doubtful debt provision includes an amount of approximately HK\$9.2 million, which arose from the loss in a client's futures trading account in a subsidiary company. The Directors decided to adopt a prudent approach and make full provision for this debt. The Group has initiated legal proceedings against the client and a related party for the recovery of such debt. The relocation of the Group's head office to Cheung Kong Center also resulted in an increase in depreciation and administration expenses.

Brokerage Business

For the year ended 31st December, 2000, the Group recorded an increase of approximately 22.4% in commission income, which was mainly contributed by the stockbroking business during the first half of Year 2000. The performance of the stockbroking business for the second half of Year 2000 was considered satisfactory, given the poor market sentiment prevailing since September 2000 due to the concern on higher energy cost and the continued corrections in the telecommunications-media-technology sector, with the Hang Seng Index reaching a near record low of 13,984 for Year 2000 on 30th November, 2000. In addition, the average daily trading volume on the Stock Exchange for the six months ended 31st December, 2000 decreased to approximately HK\$10,327.4 million as compared with the figure of approximately HK\$14,398.7 million for the first half of Year 2000. Although the average daily turnover of Hang Seng Index Futures dropped significantly for the year ended 31st December, 2000 to 16,288 contracts per day from 20,991 contracts per day for the year ended 31st December, 1999, the Group's market share remained relatively steady.

Interest Income

Interest income from the Group's margin and other financing activities increased significantly by approximately 388.5% as compared with the corresponding figure for 1999. This was contributed largely by the expansion of the Group's margin financing business funded partly from the proceeds derived from the initial public offerings of shares of the Company in September 2000. Interest income from bank deposits, bonds and other sources, however dropped by about 23.9% due to the decrease in the deposit interest rate and the disposal of the bond portfolio during the first half of Year 2000.

Investment In Securities

The Group recorded a realised gain of approximately HK\$5.8 million on disposal of other investments and futures trading and an unrealised loss of approximately HK\$11.6 million on revaluation of other investments during the year ended 31st December, 2000.

Shares in HKEC

The Group sold all its shares in HKEC on the market in June 2000 realising a gain of approximately HK\$26.7 million.

AMS/3 and BSS

The Stock Exchange introduced the Third Generation Automatic Order Matching and Execution System (“AMS/3”) on 23rd October, 2000. AMS/3 is a new generation of trading infrastructure designed to connect investors, exchange participants and the central market through e-commerce facilities. This will further strengthen the position of Hong Kong as a leading global equity marketplace and increase its competitiveness as an international financial centre.

In support of this, the Group had purchased a Broker Supplied System (“BSS”), consisting of a trading system with multi-workstation interface, connected to the AMS/3 Open Gateway and the back-office system. This system was successfully launched on 15th December, 2000, following the verification of readiness and approval by the Stock Exchange.

Others

The newly set up corporate finance division has handled five underwriting/placing assignments involving four initial public offerings and one listed issuer. The division has also acted as a co-sponsor for the listing of shares of a manufacturing company on the main board of the Stock Exchange in the fourth quarter of 2000.

The asset management division completed its first full year of full-scale operation in Year 2000 with four unit trusts and six private client portfolios under management. The unit trusts include two global funds, one Asian regional equities fund (including Japan), and a Hong Kong equities fund. One of the global funds managed to register positive returns as at 31st December, 2000, during a year in which almost all the major markets and indices registered a negative return.

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

As at 31st December, 2000, the Group had cash reserves of approximately HK\$179.2 million, which includes approximately HK\$66.4 million of clients’ funds that were kept in designated bank trust accounts and approximately HK\$7.9 million of interim dividend payable to the parent company in Malaysia. As most of the cash reserves were placed in HK dollars short-term deposits with major banks in Hong Kong, exposure to exchange fluctuation is minimal.

The gearing ratio (total liabilities, excluding the dividend payable of HK\$9 million/total shareholders funds) for the year was 0.39 (1999: 0.62).

The Group had relied mainly on its internal resources for its funding requirement. During the financial year ended 31st December, 2000, only a small amount of overdraft facilities were utilized. The Group’s borrowings were in Hong Kong dollars. Overdraft facilities were granted to the Group at the normal market interest rate.

CHARGES ON GROUP ASSETS

During the year ended 31st December, 2000, the Group had pledged its fixed deposits of about HK\$1.9 million (1999: HK\$1.9 million) to secure a bank guarantee granted to a subsidiary in relation to leasing office premises.

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS/DISPOSALS

The Group subscribed for a total of 6,477,667 new shares in I.T.&e Limited (“IT&e”), a company incorporated in Australia with limited liability, at an aggregate subscription price of about AU\$6.9 million (about HK\$31.2 million), representing about 9% of the issued share capital of IT&e as at 31st December, 2000. IT&e was listed on the Australian Stock Exchange Limited on 3rd December, 1999. IT&e provides end-to-end information technology and e-commerce solutions to business. The Group intends to hold the shares in IT&e as a long-term strategic passive investment.

There are no material acquisitions and disposals of subsidiaries and associated companies in the course of the financial year ended 31st December, 2000.

EMPLOYEES

As at 31st December, 2000, the Group had 132 (1999: 111) employees. Total remuneration for the year was approximately HK\$37.7 million (1999: HK\$27.4 million). The Group’s remuneration policies are in line with the market practice and are formulated on the basis of the performance and experience of individual employees.

The Company has granted options to certain directors of the Company and certain senior management of the Group under the pre-IPO share option scheme adopted on 15th August, 2000 to subscribe for a total of 31,875,000 shares and the options are exercisable from 28th September, 2000 to 31st December, 2002 at subscription prices ranging from HK\$0.48 to HK\$0.50 per share. Apart from this, no share option was granted to any employee during the year ended 31st December, 2000. Upon the resignation of one option grantee in early 2001, options to subscribe for a total of 937,500 shares have lapsed.

The Company has appointed a qualified accountant with 6 years of audit and accounting experience as the Group’s internal auditor, in compliance with the requirement of the Stock Exchange as set out in the prospectus of the Company dated 19th September, 2000.

FUTURE PLANS AND PROSPECTS

The group intends to establish further branch offices in Hong Kong in areas of high retail investor concentration. The Group will continue to invest substantially in the development of systems and technology in electronic trading of shares and derivative instruments. Internet trading is planned to be introduced in the second quarter of Year 2001. Based on advanced trading technology, the Directors expect that the Group will be able to expand its client base, reduce marginal cost per client and provide better real-time risk management. The Group will also continue to expand its scope of corporate finance activities and develop its asset management business.

It is the Group’s intention to pursue a growth strategy and expand its trading capability through more strategic alliances, merger or acquisition of other brokerage houses, where the opportunity arises, so as to meet the challenges of the impending structural changes envisaged in the broking industry when the minimum commission rate is to be abolished in April 2002.

Given the advocacy of a substantial tax cut by the US President and the declining trend of the interest rates which hopefully would help spur the slackening US economy and in turn boost exports to the US which is a major market for products manufactured in the Asian countries, the Board is optimistic that the negative impact of the US-led slump on the economies of the Asian countries including Hong Kong would be reduced and hence, the stock market sentiment will improve.

By order of the Board

Teoh Eng Chooi

Executive Vice Chairman

Hong Kong, 23rd February, 2001