

Chairman's Statement



BUSINESS REVIEW

I am pleased to report that the Group made a net profit of HK\$96.1 million, equivalent to HK22.42 cents per share, for the year ended 31 March 2001. This represents a drop of 54% from a record profit of HK\$211.2 million achieved for the preceding financial year. This drop was mainly due to a 28% decrease in operating revenue coupled with a 28% increase in operating

expenses. The net profit for the year under review also included an exceptional profit of HK\$110.5 million resulted from the sale of our entire shareholding in Hong Kong Exchanges and Clearing Limited during the year. The board has recommended payment of a final dividend of HK2 cents per share to shareholders. Together with an interim dividend of HK4 cents per share already paid in January, total dividend payment for the year will amount to HK6 cents per share.

Chairman's

The drop in operating revenue was mainly due to a slowdown in market activities after the bursting of the trading bubble on technology related stocks in the second half of 2000. Total market turnover declined 11% to HK\$2,513 billion during the period under review, down from HK\$2,814 billion of the last comparable period. Daily market turnover was only HK\$10.26 billion, against HK\$11.26 billion for the same period in the preceding year.

On the cost side, we have continued to invest in operational related information technology in order to maintain a high standard of reliable trading services for our clients. We have also made significant commitment in promotion activities with the aim to enhance our image in the mass investment community. We believe these investments are necessary to bring long term benefits to the Group's business development in the future, especially in light of increased competition in the local stockbroking industry.

PROSPECTS

After the local economy's strong recovery in 2000, as evidenced by a real GDP growth of 10.5%, a significant economic slowdown in 2001 is anticipated. On the backdrop of a weak economy in both the US and Japan, the two largest economies in the world, we are cautious about the economic performance in Hong Kong for the current year.

In spite of this, we believe ongoing developments in Mainland China will offer new business opportunities for many Hong Kong companies, including our Group. China's long-term economic growth target has been set at a Compound Annual Growth Rate of 7-8% for the next decade. With China's imminent accession to the World Trade Organization, the development of the West Region, and continued reforms in its key industries, Mainland China is expected to offer ample scope of business opportunities to foreign investors.

In particular, our corporate finance and asset management businesses are expected to benefit from the reforms in China's capital markets. Since China opened up its B-share markets in February, the consensus is that there will be more deregulation in its stock markets, including the possibility of permitting issuance of China Depository Receipts by selected Hong Kong-listed red chips companies for investment by domestic investors in China. We will be seeking underwriting activity in the B-share markets, which are expected to see substantial growth in the future as more sizeable new issues are admitted.

On the local front, although the operating environment for stockbroking business will remain highly competitive, we are confident we will be able to maintain our leading market position in the industry. We trust our investments in technology and competent human resources will yield positive results, as only quality and efficient services can ensure the staying power of market participants. Our strategies of developing a state-of-the-art online trading system, expanding the branch network, and capturing more corporate and institutional stockbroking business are already generating fruitful results.

In conclusion, despite the short-term fluctuations in our business performance, we see good potential for our Group to develop a significant investment banking business in the Greater China region. The continued success of the Group will undoubtedly continue to rely on the support from our shareholders, directors and employees, to whom I wish to express my thanks for their dedicated efforts in the past year.

CHENG Kar Shun, Henry

Chairman

Hong Kong, 5 July 2001

