

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the six months ended 30 June 2001, the Group's turnover decreased by approximately 50.6% to approximately HK\$33.8 million as compared to the corresponding figure for 2000. The Group recorded a loss attributable to shareholders of approximately HK\$7.5 million for the same period as compared to a profit of approximately HK\$43.7 million for the corresponding period in 2000.

The decrease in turnover was mainly attributed to the drop in commission income from the Group's stockbroking business which was dampened by the shrinkage in the total trading volume on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). During the period under review, the average daily trading volume on the Stock Exchange was approximately HK\$9,308 million, representing a decline of approximately 35.4% from HK\$14,398 million for the corresponding period in 2000. The Hang Seng Index also dropped from a close of 15,095 on 29 December 2000 to 12,063 on 4 April 2001, being the lowest closing recorded during the first half of 2001. Under such difficult market condition, the Group has adopted a cautious approach in granting margin finance to its clients. This, coupled with the declining trend of interest rates in Hong Kong in the past few months, has resulted in a decrease of approximately 39.1% and 15.2% in interest income from the Group's margin financing activities and interest income from other sources respectively as compared with the corresponding figures in 2000.

Given the prevailing poor market sentiment, the directors have imposed strict cost control measures during the period under review resulting in a decrease of approximately 21.3% in operating cost as compared with the corresponding figure for 2000 despite an increase in depreciation and amortisation, and staff cost due to the implementation of the expansion plan after listing. During the period under review, the Group opened a new branch in Causeway Bay on 28 May 2001.

The Group's Broker Supplied System has been operating smoothly since being connected to the Stock Exchange's AMS/3 Open Gateway in December 2000. The directors are pleased to report that the Group has obtained a summary judgement against a client in respect of an amount of approximately HK\$9.2 million arising from the loss in the client's futures trading account with the Group.

Liquidity, Financial Resources and Funding

The Group continued to maintain a highly liquid balance sheet, with a cash reserves of approximately HK\$186 million, which includes approximately HK\$72 million of clients' funds that were kept in designated bank trust accounts. Most of the cash reserves were placed in Hong Kong dollars short-term deposits with major banks in Hong Kong.

The gearing ratio (total liabilities/total shareholders funds) for the period was 0.40 (31 December 2000: 0.39).

The Group relied mainly on its internal resources for its funding requirement and hence, only a small amount of the overdraft facilities were utilized. Overdraft facilities were granted to the Group at normal market interest rates and denominated in Hong Kong dollars.

Charges on Group Assets

During the six months ended 30 June 2001, the Group had pledged its fixed deposits of about HK\$1.9 million (2000: HK\$1.9 million) to secure a bank guarantee granted to a subsidiary in relation to the leasing of office premises.

Employees

The Group, including its subsidiaries, employed approximately 120 employees as at 30 June 2001. The remuneration policy for the Group's employees is reviewed by the management on a regular basis. Remuneration packages are structured to take into account the level and composition of pay and general market conditions in the businesses in which the Group operates. Bonus and other merit payments are linked to the financial performance of the Group and individual performance as incentives to optimise performance. Share options had been granted to certain directors and senior management in accordance with the terms of the pre-IPO share option scheme adopted on 15 August 2000 for a total of 31,875,000 shares and the options are exercisable from 28 September 2000 to 31 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 period ended 30 June 2001. Upon the resignations of two option grantees in early 2001, options to subscribe for a total of 1,875,000 shares had lapsed.

The Group continues to place emphasis on developing its most valuable resources which is its employee base. Training courses are arranged and educational assistance is available to all eligible employees.

Future Plans and Prospect

The Group will continue the implementation of its expansion plan in broadening its customer base and in increasing its trading capability. It has completed the development of an internet share trading system and will launch the service in August 2001. An electronic system for trading HSI futures with internet trading capability is being installed and we target internet trading for HSI futures by the end of 2001. The Group has entered into a sales and purchase agreement on 18 July 2001 for the acquisition of a trading right on the Stock Exchange to cater for the expected increase in trading orders upon the full scale operation of the Group's internet trading system. The Group will also set up its fourth branch office before the end of the year.

The impact of the series of rate cuts in the US is still filtering into the US economy and the near term outlook for the US and Japan, the two largest economies, remains clouded. The directors remain cautious about the economic performance and the level of the stock activities in Hong Kong in the early part of the second half of 2001. However, the rate cuts and the tax refund should trigger an economic recovery in the US, possibly in early 2002. The Chinese economy continues to maintain a strong growth and is expected to achieve a 7 to 8% growth for the current year. The Board is cautiously optimistic that the sentiment in the global stock market will improve in late 2001.

Interim Dividend

The directors do not recommend any interim dividend for the six months ended 30 June 2001 (2000: HK\$0.025 per share).