MANAGEMENT DISCUSSION AND ANALYSIS

Results

The Company sustained an unaudited loss of HK$45.5 million in the first half to 30 September 2001 against a profit of HK$62.3 million in the interim 2000. Turnover for the period declined 38% to HK$145.9 million on the comparable figure last year.

The Company registered its first loss since its listing in August 1996. In view of the depressed market, a loan provision of HK$30.5 million had been charged to the profit and loss account for the period under review.

Market review

For the six months under review, the local stock market went through a significant correction. The benchmark Hang Seng Index lost 2,810 points, or 22%, over the period. Part of the downfall could be attributed to the weakness in major overseas markets owing to a general uncertainty in the economic outlook. For example, the US markets dropped 10% in its main barometer – the Dow Jones Industrial Average and 19% in its tech-stock benchmark – Nasdaq Composite Index during the same period.

As stated in the annual report for the last financial year, we had actually witnessed a significant improvement in market activity in the second quarter of the current calendar year. Trading in red chips and H-shares turned active after the Chinese government announced in February the opening up of its B-share markets to domestic investors. Massive funds were reported to have repatriated from the Chinese mainland heading for share purchases in Hong Kong, targeting mainly on the comparatively cheaper red chips and H-shares. Market activity however cooled down drastically after the Chinese government asserted its commitment in regulating unauthorised funds flows from the domestic banking system into the stock markets, both in and out of the country.

The macro economic picture showed no sign of improvement during the review period. At the heels of their US counterparts, local interest rates were cut by 2% during the six months under review, after the 1.5% cut already made in the first three months of this year. Up to the time of this report, we have already witnessed 10 rate cuts totalling 4.25% since the beginning of this year. The series of rate cuts, though the most generous historically, proved to have little impact on stimulating our economy, which is undergoing a structural change with a longer consolidation period than previously anticipated.

Market conditions during the latter part of the review period were further battered by the unprecedented terrorist attacks in the US on 11 September and the subsequent strike against Afghanistan. While we are pleased to see significant rebounds in major stock markets recently, both our corporate finance and brokerage businesses had been adversely affected by the low investment climate that prevailed during the review period.

In comparison, the average daily turnover of the Stock Exchange of Hong Kong was HK$8,140 million for the review period, which represented only about 70% of the level registered for the same period in 2000. Total market capitalisation dropped by 19% over the review period to HK$3,373 billion, which coupled with slower market velocity, explained the difficult market conditions that prevailed and had adversely affected our interim results for the financial year ending 31 March 2002.

Business review

The continued recession and deflation in Hong Kong took its toll in the market place for the period under review. All our major business units suffered different degree of losses.

Securities

Turnover of the unit decreased 26% resulting in a loss of HK$18.9 million. Branch operation was the least affected among all the other operating departments.

Futures

Number of contracts traded in the period more than doubled and turnover increased 83%. Although the unit still recorded a small loss in the first half, with the completion of our automation programme and a widening client interest in futures products, we are confident the unit will continue to grow and become profitable.

Corporate finance

Owing to substantially reduced corporate activities and fee receipts, the unit suffered its first loss to the tune of HK$1.7 million. Deals completed during the period under review can be categorised as follows:

Sponsor	1
Advisory	18
Underwriting	3
Placing	10
Rights issues and others	2
Total transactions	34

Our Shanghai representative office was officially opened in October this year and in addition to our office in Beijing established in 1997, we now have a presence of two offices in China.

Margin financing

The unit showed a loss of HK$16.3 million after doubtful debts provision. Income decreased 23% as a result of the continued reductions in interest rate and reduced demand on securities financing. Advances to customers amounted to HK$1.29 billion as at 30 September 2001.

Proprietary trading

The Company had reduced its investment portfolio during the first half and had incurred a loss of HK$8.5 million. Total securities investment now stood at HK$53.5 million.

Online services

Turnover on online activities failed to achieve our target due to dampened market activities in general. Trading through our online channels remained constant at around 15% of the Company's turnover. The unit will continue its efforts to seek co-operative joint ventures opportunities with Mainland China counterparts.

Asset management

The unit entered into a number of agreements with Mainland China counterparts to make skill transfer and to market authorised and private funds. It is expected that following the opening up of China's capital market, this line of business will have great growth potential.

Cost reduction programme

In preparation for the difficult time ahead, the Management implemented programmes to reduce operating cost. Such programmes included reduction in staff and the Group's payroll, rental space, marketing and other form of expenses for all business units. In addition to the said programmes, we had closed down our London and New York offices since 30 September 2001 to streamline the operations of the Group. It is anticipated that such measures would yield a saving of around HK$30 million for this accounting year.

Financial review

Liquidity and financial resources

As at 30 September 2001, the Company had cash and cash equivalents of HK$37 million and short-term investments of HK$23 million. Current Ratio improved to 1.63 (2000: 1.49). Gearing ratio, which is the ratio of borrowing to net asset value, showed healthy improvement to 0.61 (2000: 0.92) and the ratio of borrowing to total assets was also improved to 0.26 (2000: 0.34). At the end of the period, total available banking facilities amounted to HK$1,525 million. The Company believes it has available adequate working capital to service its business activities.

Prospects

Despite the current low tide in our industry, we strongly believe that the importance of the securities market to our economy will be maintained. However, we accept that considerable efforts would still be required if we are to maintain our competitiveness in the international financial markets. China's confirmed accession to the WTO will offer tremendous business opportunities to us, but the further opening up of the country will also pose increasing threats to our role to serve as an intermediary for Mainland China and the other developed countries.

There will be no shortage of catalysts to help revive activity in the local stock market next year. More importantly, the impact from the repetitive rate cuts in the US in past several months will gradually bear fruit and a recovery in the US will no doubt help revive other world economies. China's accession to the WTO has materialised, and hopefully this will provide an added stimulus to the global market place.

We also anticipate China to continue its efforts in reforming and opening up its financial markets. The growing private wealth in the Mainland will provide immense liquidity to its stock markets, and we believe Hong Kong will stand out to tap its investment flows. The territory should play a role not only as a fund-raising and trading marketplace for major Chinese enterprises, but also a provider of valuable expertise to help China to build and strengthen its capital markets with international recognition. Our Group's capability in securities and futures brokerage and in various financial advisory functions will ensure our share of opportunities over time.

We have not overlooked the challenges that are present in the local securities industry. The competition for brokerage business looks set to heat up when the deregulation of minimum commission takes effect in April 2002. However, we believe the stronger players who are well prepared for the change will be affected to a lesser extent. Our commitment and efforts in enhancing our management, service quality and technology advancement in past years will prove an indispensable asset for our future growth. Barring unforeseen circumstances, we are looking forward to returning to profitability in the near term.

By order of the board
WONG Shiu Hoi, Peter
Managing Director

Hong Kong, 10 December 2001