

BUSINESS REVIEW

Overview

The business of the Group for the financial year under review has been adversely affected by the depressed investment climate. For the year ended 31st December, 2001, the Group recorded a turnover of approximately HK\$59.3 million which represents a decrease of about 49.4% as compared to the corresponding figure for Year 2000. The net loss for Year 2001 was approximately HK\$46.7 million as compared to a net profit of approximately HK\$30.7 million for Year 2000.

Brokerage and Interest Income

Protracted global economic slowdown and poor economic conditions in Hong Kong have created a difficult and competitive market environment for Year 2001. The horrible events of 11th September, 2001 in the USA have delayed the prospect of global economic recovery and further depressed the markets. The changes to the business environment are evident from the decrease in the trading volume on the Stock Exchange. For the financial year under review, the average daily trading volume on the Stock Exchange was approximately HK\$8,187 million, representing a decrease of about 35% from that of approximately HK\$12,680 million recorded for Year 2000. The barometer of the market i.e. the Hang Seng Index ("HSI") has also dropped from a close of 15,095 on 29th December, 2000 to a low of 8,934 on 21st September, 2001 before recovering to close at 11,397 for the year on 31st December, 2001.

Resulting from lower trading activities, commission income generated decreased by about 52.4% from approximately HK\$84.6 million in Year 2000 to approximately HK\$40.3 million in Year 2001. Interest income has also reduced by about 42.4% from approximately HK\$32.1 million to approximately HK\$18.5 million. This was due to a lower level of margin financing to clients, coupled with a much lower interest rates structure, and therefore lower yield on both trade receivables and bank deposits for Year 2001, as compared to the previous year.

Investment in Securities

The Group's investment in IT&e, listed on the Australian Stock Exchange Limited, has suffered impairment in value mainly attributable to the bursting of the bubble on technology related stocks. IT&e has restructured itself and divested its non-core, non-profitable businesses and focussed on its core business of provision of information technology services and software applications to major corporations. The Board, however, has decided to write-down the investment to fair market value, based on the price of a recent placement of new shares issued by IT&e. This write-down of investment in securities has resulted in a provision of approximately HK\$27.1 million but will not affect the future cash-flow of the Group. The Group's loss from operations excluding the effect of the above provision would be limited to approximately HK\$19.6 million.

Others

Given the poor market sentiment, the management has imposed strict cost control measures during the financial year under review, which resulted in a decrease of about 27.0% in overall operating costs as compared with Year 2000, despite an increase in depreciation and staff costs due to the implementation of expansion plans after listing. Active risk management approach has reduced the net provision for doubtful debts by about 73.2% from approximately HK\$8.2 million to approximately HK\$2.2 million.

During the financial year, the Group opened two new branches in Causeway Bay and Yuen Long on 28th May, 2001 and 26th September, 2001 respectively with a view to further broaden the clientele base and market reach of the Group's distribution network. The Group now has a total of four branches situated at strategic locations to tap the local clientele business. Against the backdrop of an increasingly competitive environment, the Group has been able to consistently grow its clientele base and the number of clients has been on an increasing trend. OSK Asia Securities Limited



Online trading promotion day at Yuen Long Branch

has also been co-operating closely with its business partner, Luk Fook Securities Limited ("Luk Fook") in jointly developing the securities trading business through Luk Fook branches located in Mong Kok and North Point.

CONTINGENT LIABILITIES

At 31st December, 2001, the Group has no significant contingent liabilities. The Company, however, has issued an unlimited corporate guarantee to a bank in respect of general facilities granted to a subsidiary. The Company has also issued guarantees amounting to HK\$45 million (2000: HK\$30 million) to other banks in respect of general facilities granted to that subsidiary. The subsidiary did not utilise any of the facilities as at 31st December, 2001 (2000: Nil).

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

The Group continued to maintain a highly liquid balance sheet, with cash reserves of approximately HK\$185.6 million (2000: HK\$179.2 million) which includes approximately HK\$94.0 million (2000: HK\$66.4 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 year was 0.47 (31st December, 2000: 0.39).

The Group relied mainly on its internal resources for its funding requirements and hence, only a minimal amount of the bank overdraft facilities was utilized during the year. As at 31st December, 2001, there were no outstanding bank overdraft balances. Bank overdraft facilities were granted to the Group at normal market interest rates and denominated in Hong Kong dollars.

USE OF PROCEEDS FROM INITIAL PUBLIC OFFER

Pursuant to the successful listing of the Company's shares on the Stock Exchange in September 2000 which raised approximately HK\$56 million, the utilisation of the net proceeds was as follows:

	Intended purpose <i>HK\$'000</i>	Actual application <i>HK\$'000</i>	Unutilised proceeds <i>HK\$'000</i>
(a) Expansion of the margin financing business	20,000	5,000	15,000
(b) Investment in technology-related areas	15,000	3,200	11,800
(c) Developing corporate finance business and underwriting capability	10,000	5,800	4,200
(d) General working capital of the Group	11,000	11,000	—
	<u>56,000</u>	<u>25,000</u>	<u>31,000</u>
Total	<u>56,000</u>	<u>25,000</u>	<u>31,000</u>

The balance of the net unutilised proceeds as at 31st December, 2001 of approximately HK\$31 million was placed on short-term deposits with financial institutions in Hong Kong and will be used for the expansion of the Group's margin financing business, investment in technology-related areas and to develop the Group's corporate finance business.

CHARGES ON GROUP ASSETS

The Group had pledged its time deposit 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 AND REMUNERATION POLICY

The Group employed 128 employees as at 31st December, 2001 (2000: 132). 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. The Group has undertaken a major manpower/salary review exercise and implemented various measures in January 2002 with a view to enhance the operational efficiency and cost effectiveness of the Group in Year 2002.

Pursuant to the pre-Initial Public Offer share option scheme adopted on 15th August, 2000, no new options were granted and none of the grantees exercised their options under the scheme during the year.

The Group will continue to emphasize on staff training and total quality management to better prepare its staff for the upcoming changes and challenges in the market and industry.

FUTURE PLANS AND PROSPECTS

The postponement for twelve months of the abolishment of the minimum commission rate originally scheduled for April 2002 has provided the opportunities for the Group to further consolidate itself and continue rationalising its operations. The Group will cautiously continue its expansion plan in enlarging its customer base, developing new products and increasing its trading capability. Further branching will be pursued. The Group has successfully launched the internet share trading system service in December 2001 and the installation of an electronic system for trading HSI futures with internet trading capability is in the final stage of completion. Through these online trading platforms, we target to extend our client reach both locally and regionally. Promotional activities have been planned and implemented to develop and market internet trading as an additional channel for the Group to enhance its image in the mass investment community and extend its market spread while at the same time meeting the requirements of the clients.

The Group has on 28th August, 2001 acquired an additional trading right on the Stock Exchange for HK\$3.2 million, making a total of three trading rights, to cater for the expected increase in trading orders upon the full scale operation of the Group's internet trading system. OSK Asia Securities Limited has also on 21st January, 2002 obtained the approval of the China Securities Regulatory Commission and qualified as a securities operation institution to engage in foreign investment share business in the People's Republic of China ("China"). The above strategic move sets the footing for the Group to more actively participate in the financial markets in China, especially following the success of China in becoming a member of the World Trade Organisation.

The Directors are of the opinion that Year 2002 will continue to be a challenging year for the Group as the global economy struggles to recover from its worst recession in many years. However, there are indications that positive growth will return to the global economy, particularly in the USA, and Hong Kong may see better performance in its economic activities in the second half of 2002. The Directors are confident that Year 2002 will see better market sentiment and activities and, barring unforeseen circumstances be a better year for the Group as compared to Year 2001.

APPRECIATION

The Board would like to express its sincere appreciation to its shareholders and clients for their continued support to the Group and to the management and staff for their dedication and hardwork.

By order of the Board
Teoh Eng Chooi
Executive Vice Chairman

Hong Kong, 22nd February, 2002