

# Management Discussion and Analysis

## Business review

Since the acquisition of the entire shareholdings of HT (BVI) Limited on 30th November 2001, the Group expanded its principal activities from single leveraged foreign exchange trading services into securities broking, futures and commodities broking, corporate financial advisory, asset management and personal financial advisory activities. This is a remarkable change for the Group from a single focus in leveraged foreign exchange trading as described in the prospectus when the Group was listed on the main board of the Stock Exchange of Hong Kong in August 2000. The Group now has the capacity to deliver comprehensive financial services to a diversified and sophisticated client base in Hong Kong and overseas.

During the year, the leveraged foreign exchange trading business continued to recruit additional account executives and provided them with high standard in-house product and regulatory compliance training courses in order to enable them to provide quality services to clients and to maintain acceptable professional standards as required by regulatory authority. The addition of new account executives with proper training enabled the Group to increase turnover from retail clients trading foreign exchange spot contracts. The increase of foreign exchange spot contracts also led to satisfactory growth in swap interest and trading revenue which increased by nearly 50% from HK\$27 million in 2000 to HK\$40 million in 2001. Successive interest rate cuts in the United States dampened interest income derived from deposits placed with recognized counterparties as well as the interest spread earned on the foreign exchange contracts. While leveraged foreign exchange trading commission income increased significantly from HK\$13 million to HK\$21 million, a very large proportion of that was rebated to the sales and marketing staff which is in line with market practice. Therefore, its contribution to the Group's net profit is limited.

Revenue generated from agency foreign exchange option trading dropped by over 90% as compared with the preceding year because certain high net worth individual clients ceased to engage in foreign exchange option trading. Starting from the 4th quarter of the year, the Group engaged in proprietary trading in foreign exchange option contracts, i.e. the Group initiated foreign exchange option positions on its own account with an objective of profit making. The trading activities were managed by the senior executives of the foreign exchange trading department. In addition, the Group has established position limit and stop loss limit guidelines and risk management procedures to monitor and control the risk exposure inherent to proprietary trading. Gross revenue of HK\$4.48 million was generated from the foreign exchange option trading.

The securities broking and other financial services businesses acquired at the end of November 2001 did not contribute profits to the Group with the exception of corporate finance activities. The less than satisfactory performance was due to poor market sentiment in the stock market and the synergy in allocation of resources arising from the consolidation of businesses takes time to achieve. To rationalize the deployment of human and capital resources, the Board made the decision to close branch offices and centralize marketing executives to head office for convenience of training and cross-sector marketing. Management is confident that the Group will benefit from the acquisition as the Group is now in a position to provide full range of financial products in the market and the client base was increased from around one thousand to over six thousand as at 31st December 2001. The Board also recognised that high calibre professionals are vital to financial services business and therefore share options were granted to management executives during the year in order to stimulate incentive to strive for good results for the Group.

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## **Financial resources**

The Group maintained a high level of liquid assets and complied with relevant liquid capital requirements of the Financial Resources Rules promulgated by the Securities and Futures Commission. The Group's cash at bank stood at HK\$154 million as at 31st December 2001 and liquid ratio was 2.45 times. The Group has no long-term liabilities. Current liabilities mainly comprised of margin and other deposits due to clients totaling HK\$130 million and, short-term bank loans and overdraft totaling HK\$23.8 million which is procured to finance margin loans extended to securities margin clients.

## **Use of proceeds**

Of the approximately HK\$60 million net proceeds raised in the initial public offer in July 2000, about HK\$40 million has been applied according to the plans as stated in the prospectus of the Company dated 20th July 2000. The balance of approximately HK\$20 million has been maintained as additional working capital.

## **Acquisition of securities brokerage and other related financial services business**

On 4th September 2001, the Company issued and placed 60 million shares at HK\$0.73 each to more than six independent investors in order to finance its expansion into other business sectors of the finance industry. On 8th October 2001, the Company entered into a sales and purchase agreement with Hantec Holdings Limited ("HHL") whereby the Company acquired the businesses of securities broking, futures and commodities broking, corporate financial advisory, investment consultancy, and asset management from HHL together with the shareholder's loan at a consideration of approximately HK\$81.8 million. The consideration was satisfied as to approximately HK\$54.5 million in cash and as to the balance of approximately HK\$27.3 million by the allotment and issue of 37,122,000 ordinary shares of the Company at HK\$0.735 per share. The acquisition constituted a connected transaction and was approved by a special general meeting held on 22nd November 2001.

## **Contingent liabilities**

The Company provided corporate guarantees to banks and financial institutions for securing banking facilities granted to two subsidiaries of the Company engaging in securities broking and leveraged foreign exchange trading respectively. The banking facilities were applied in their normal courses of business activities.

In 2000, the Company received an injunction claim on alleged passing off of the trade name "Hantec". Defence actions continued whilst the indemnity provided by HHL on all potential damages, losses, fees and expenses arising from the claim remains effective. As such, no provision has been made on this matter.

## **Future prospect**

An advanced electronic foreign exchange trading system was launched in November 2001. The system was provided by a renowned international system provider which developed and implemented reliable and efficient systems for international financial institutions. Our clients can now place orders, check their margin and trading positions, and review their previous trading records through the internet.

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In recognition of our experience and expertise in sponsoring and managing primary issues, the Group's corporate finance arm, Hantec Capital Limited ("HCL"), was granted permission by the Stock Exchange of Hong Kong Limited ("SEHK") in June 2001 to sponsor companies applying for The Growth Enterprise Market (the "GEM") listings. The approval is a landmark development of our corporate finance team, and has greatly increased the scope of business activities of corporate finance operations. HCL made further recruitment of corporate finance executives to cope with business expansion; and as a result the corporate finance team sponsored its first GEM listing in February 2002. Whilst our corporate finance team continues to be active in sponsoring companies applying for listing on the main board and GEM board of the SEHK, we started to introduce to PRC companies about the alternatives of capital raising in Hong Kong. In October and November 2001, we held seminars on how PRC companies could apply for GEM listing on SEHK during the Hi-Tech Fair in Shenzhen and Chongxing; and started to explore the PRC market with an aim to sponsoring medium size private companies, with good potentials and sound management systems, seeking for listing on the main board or GEM board of SEHK. With PRC's entry into the World Trade Organization and the continued growth in the PRC economy, the Group is committed to further development of corporate finance activities in PRC.

## Conclusion

Market conditions may be difficult in some business sectors in 2002, but our spread of businesses and increased synergies among them would highlight our position as a cross-sector financial services provider. At the same time, we maintain a firm view to develop revenue driver in leveraged foreign exchange trading supported by robust risk management environment and will continue our efforts to ensure cost efficiency.

In the light of the unstable conditions of the US economy and the political instability in the Middle East region, it appears that the global economy remain sluggish. These factors, together with the soaring unemployment rate in the local economy, lead the board to forecast that the general investment sentiment of the members of the investing public will remain conservative and the market turnover of the local stock brokerage sector will remain stagnant. The fundamental changes arising from the abolishment of minimum brokerage commission and intensive competition from banks for the retail stock brokerage market will render local retail brokerage business less profitable than before.

To cope with the cyclical and fundamental change of financial services business, the Group has extended its business horizontally and avail its clients with full range of financial products. It is expected that our business expansion will stabilize our revenue streams, and also provide a cross-sector marketing platform which generates cross-product selling opportunities for our marketing executives as well as synergies in rationalization of resources among different markets.

Given the current market conditions, the Board maintains a conservative view on the general business performance for the year of 2002. But we are confident that our continual expansion of corporate finance activities and our re-positioning as a cross-sector financial services group will generate synergy values which will make contribution to the Group.

**Tang Ping Sum**

*Deputy Chairman*

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