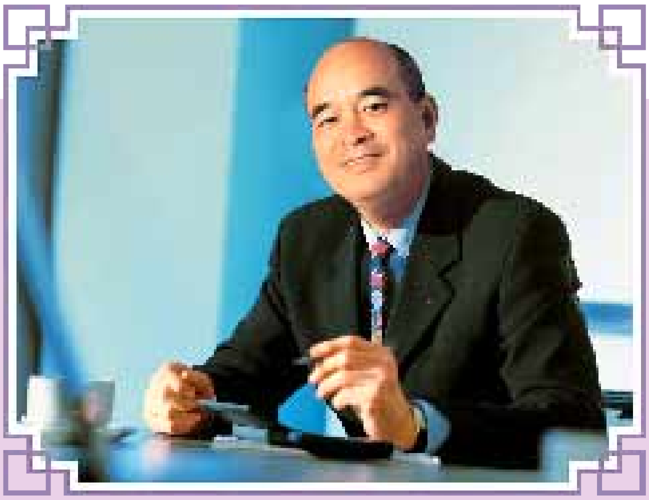
CHAIRMAN'S STATEMENT



BUSINESS REVIEW

I would like to present the annual report of the Group for the year ended 31 March 2002. Against a net profit of HK$93.4 million for the preceding financial year, the Group sustained a net loss of HK$118.3 million during the financial year under review. The attributable loss per share amounted to 24.32 cents, compared with an earnings per share of 21.79 cents for the preceding financial year. In view of the loss for the year, the Board does not propose the payment of a final dividend, thus leaving the interim dividend of HK1 cent per share paid in January 2002 being the only dividend payment for the year.

The Board does not view the financial results as pleasing but understands that this was largely due to external and market factors. Total revenue registered a 33% decline to HK$270.7 million with setbacks being suffered by all major business units. Foreseeing the difficult operating environment at the start of the review period, the Board had already taken measures to reduce operating expenses, which dropped by 8% during the year. While we expect the effect of the cost rationalization measures would be more apparent during the current financial year, its effect on the financial year under review was not significant and was unable to improve the profit downturn for the period under review.

Having reported a net loss of HK$45.5 million for the first half of the financial year, the hope of any quick recovery was dampened by the continued adverse market conditions which were especially pronounced during the second half of the year, being the after effects on the global stock markets of the unprecedented terrorist attack on the United States on 11 September. The Hong Kong market took almost a full month to recover to the pre-attack level although considerably sooner than its counterparts in the United States.

Despite the resilience in the share prices of major stocks, the local market suffered from diminished trading activity in subsequent months. For the twelve months under review, total market turnover recorded a 26% drop to HK$1,857.3 billion, or a daily average of HK$7,707 million. The slow down in trading activity was reflected by a slower turnover velocity (total turnover in dollar terms as a percentage of average market capitalization) of 46.5%, compared with 52.8% for the preceding period. The drop in total turnover could also be attributed to the poor market performance, with the Hang Seng Index losing 1,727.72 points, or 13.5%, over the review period.

The sharp reduction in trading interest had an important bearing on our equity brokerage business. Our corporate finance and advisory businesses were not immune from the slump either, as major corporate deals were held back amid market uncertainties. The poor market performance also led to further provisions made for bad debts and our proprietary equity holdings. On the other hand, our futures brokerage business emerged as the only bright spot with a 82% upsurge in commission income. Our branches and online operations were also encouraging with their increasing shares of total revenue. The progress of our diversification in products and sales channels has been very satisfactory.

PROSPECTS

Our cautious note on the local economy at the start of last year was proven accurate. Hong Kong's GDP growth was in the red for three consecutive quarters since the third quarter of 2001, which means that Hong Kong is now officially in a recession. The deepening deflation and escalating unemployment are especially worrying, as these reflect the structural economic problems in the territory in addition to the impact from global economic slump.

On a positive note, Hong Kong is undergoing a healthy consolidation which will help to transform the territory into a more competitive business center. Hong Kong's role as an international financial center is unlikely to be overtaken by any major cities in the region in the near term, including the much-talked about potential competitor in Mainland China, namely Shanghai. We strongly believe that China will continue to reform its various business sectors after its accession to the World Trade Organization at the beginning of 2002. Hong Kong will continue to play an important role in channeling funds and talents to/from the Mainland. The gradual integration of the territory with its motherland must lead to more participation of Hong Kong in China's continued economic developments.

We believe the difficult and competitive operating environment in the local securities industry will only phase out the less efficient participants. As our Group possesses a strong balance sheet and a highly efficient workforce, led by competent management, we should be able to seize upon any business opportunities arising from the on-going market developments in both Hong Kong and the Mainland. We aim to maximize the returns to our shareholders on a longer-term horizon. I appreciate the keen support from our shareholders for sharing our vision, and the dedicated efforts from our directors and employees to keep our Group abreast of the ever changing market places.

CHENG Kar Shun, Henry
Chairman
Hong Kong, 8 July 2002