

MANAGING DIRECTOR'S REVIEW

OVERVIEW

Despite the profit downturn during the past financial year, we are on track to strengthen our competitiveness in the changing securities industry. To reiterate our vision, we aim to utilize our strengths in offering market-driven and IT-driven services, to enable us to participate in the globalization of the industry. We believe our success in these areas is critical for maximizing returns to shareholders on a longer-term perspective.

The provision of market-driven and IT-driven services should enable us to meet the demanding needs of our existing and potential clients on a more cost effective manner. We have continued to increase the diversity of our products, which now encompass equities, futures, warrants/options, fixed-income investments, investment funds, asset management, bullion and foreign exchanges in various major markets.

Our IT-driven services ensure the best trading convenience for our clients, with a vertically integrated processing system from order placing to final settlement. The means of order placing remain highly diversified, which include Internet, mobile phone, IVRS (interactive voice response telephone system), PALM, PDA and WAP.

Our settlement convenience is among the best available in the local market with transfer arrangements accessible to most of the major retail banks. We are also pleased to inform investors that our co-branded credit card with Dah



Sing Bank was the first of its kind in the market and has been well received by our clients.

The globalization process in the securities industry has been accelerated by the demutualization and listing of several major stock exchanges, including the Stock Exchange of Hong Kong. We consider our promotion activity in the global marketplace, in particular in Mainland China, a necessary tactic to enhance our market penetration amid increasing challenges from the emergence of global players.

We have developed sound connections in our target markets, including the opening up of a new office in Shanghai, in addition to our Beijing office in China. We have entered into a management contract with Homeway, a prominent financial information provider in China, for the development and operation of an electronic trading platform targeting towards domestic investors. We have a management exchange program with GF Securities, one of the leading securities houses in China. Our commitment in advanced online trading facility will also assure our share of the increasing cross-border trading activities.



BUSINESS UNITS REVIEW

Broking

Commission income for the unit declined 18% compared to last year which was in line with the drop in turnover of the Stock Exchange of Hong Kong for the period. It recorded a loss of HK\$36.4 million against a loss of HK\$16.2 million in 2001.

Retail sales and corporate service had a very modest year while institutional sales and branch operation registered an increased share of the unit's turnover. Online trading activities continued to expand. In terms of number of transactions and turnover, the division had a share of 30% and 15% respectively of the business of the unit.

Futures operation offered the only comfort to the lackluster performance by registering a 82% increase in turnover. Following the introduction of online futures trading in July, we believe the division will attain another fruitful year in the current financial year.

Margin Financing and Money Lending

Interest income decreased 37% against financial year 2001 and the unit suffered a loss of HK\$58.4 million against a gain of HK\$33.1 million in 2001.

Total margin loan portfolio remained relatively constant in the financial year under review. However, the successive interest rate reductions throughout the year had substantially eroded our income. As mentioned in

the Chairman's Statement, a provision of HK\$75.1 million was charged to the unit to take into account potential delinquent loans.

Corporate Advisory, Placing and Underwriting

Despite the fact that fee income for the corporate finance division dropped 59% compared with year 2001, a small profit was recorded in the year under review. The main reasons for the decrease in income are keener competition and reduced corporate activities. Nevertheless, our corporate finance division was able to secure many corporate deals in Hong Kong and Mainland China and to complete 74 assignments in the year. These included 3 IPO issues on the GEM Board, 1 lead manager for a listing on the Main Board and 12 underwriting assignments. On financial advisory, it had also completed 43 advisory assignments. In addition, the division acted as manager for 2 rights issues and 13 placements of shares, warrants and convertible bonds in the secondary market.

Asset Management

The asset management division was engaged in preliminary works on the set up of authorised and private funds and on co-operation opportunities with its Mainland China counterparts throughout the year. In view of the poor market sentiment prevailing, the launch and marketing of certain funds were postponed. The division made little contribution to revenue of the unit in the year.

Trading and Investment

The Group disposed of the majority of its trading portfolio in the year and made a loss of HK\$5 million. Since the beginning of the financial year, the portfolio had been reduced from HK\$52.9 million to HK\$11.3 million as at 31 March 2002.

Currently the Group is still holding certain long-term investments which were valued at HK\$46.7 million at 31 March 2002, an appreciation of HK\$7.8 million from 1 April 2001.

Future Plans

The market reform in China is an irreversible process. Together with its huge market penetration potential, and given the increasing savings held by the public, we are optimistic that there is ample scope for expanding our business across the border. We have also strengthened our connections in China with the aim of capturing more quality deals for our corporate finance section. Our next step is to build up our distribution and sales network on the Mainland to prepare for the opening of its investment markets.

We have also moved forward to upgrade our IT system and electronic trading capability to make ourselves genuinely a global financial intermediary reachable from everywhere through the Internet. Our website users will continue to enjoy enhanced value added services with the access to real-time financial information and updated investment advices. We aim to provide comprehensive investment services to our clients through our website.

In addition to traditional share trading, our clients can now trade futures, subscribe for IPO and share / warrant placing, and apply for margin financing, etc on the web. We are also planning more new online services.

Having already gained several internationally recognized awards for our quality services and management in the past two years, we will nonetheless continue to upgrade ourselves in all aspects to maintain our status as a preferred local securities house. We will also endeavour to enhance our corporate governance to stand out as a preferred listed company in the industry. Our contribution to the community includes the provision of investment education to the public through various investment seminars and conferences, and more importantly, the dissemination of unbiased and up-to-date investment advices through our website.

Given the improved results of the past three months, I am confident to see a turnaround of the Group's performance in the current financial year.

I would like to take this opportunity to thank our staff, shareholders and all stakeholders for their support for the future growth of the Group.

WONG Shiu Hoi, Peter
Managing Director
Hong Kong, 8 July 2002

