Results

We are pleased to announce that the Group returned to profit for the six months ended 30 September 2002, with total turnover remaining flat. Net profit attributable to shareholders amounted to HK$10.6 million for the period, a sharp reversal from a net loss of HK$45.5 million for the same period in 2001. Earnings per share amounted to 2.2 HK cents, versus a loss per share of 9.3 HK cents for the last comparable period.

The reasons for the turnaround are more fully explained in the "Business Review" section below. In general, encouraging improvements were made in the results of our broking, corporate finance, margin financing and securities trading business units, while operating expenses had also been reduced by 20% in accordance with our cost rationalization plans.

We have decided to recommend an interim dividend of 1 HK cent per share to our shareholders for the period.

Market Review

Market performance was generally disappointing for the period under review. The Hang Seng Index posted a monthly loss for five of the six months during the period. Accompanying a 17.8% drop in the Index, market turnover also slowed significantly to a daily average of HK$6,933 million, down 16.7% from the same period in 2001. The local market actually fared better than its US counterparts, as the Dow Jones Industrial Average, the Nasdaq Composite and the S&P 500 tumbled by 27%, 36% and 29% respectively over the same period.

The poor performances of overseas markets could be attributed to a combination of investment concerns, including a wave of major corporate scandals in the US, economic weakness worldwide and looming military actions against Iraq by the US allies. The local market appeared to have focused more on our own economic woes. In addition to the influences from the leading economy of the US, local sentiment remained depressed by the continuing economic correction in Hong Kong. It is apparent that the prevailing low interest rates did not have much impact in stimulating investment activities locally.

The HKSAR Government's ability to defend its economy may have been impaired by its huge budget deficit, which is expected to set a record for this fiscal year. Up to the end of September, i.e. for the first six months of this fiscal year, the Government already incurred a deficit of HK$70.8 billion, resulting in the fiscal reserves being dwindled to HK$301.7 billion. While the Government has stated that it will endeavor to achieve a balanced budget by 2006/07, investors still have doubts as to the Government's ability to do so amid a fragile economic outlook.

The local securities industry was lackluster against the backdrop of a weak macro picture. The market share of the larger brokers increased at the expense of the smaller brokers as trading activity concentrated on major blue chips and Chinese state-owned enterprises. Though the decision to dismantle the minimum brokerage commission requirements has been postponed further, smaller brokers continued to suffer owing to diminished trading interest in low priced stocks, partially caused the penny stocks incident in July.

The penny stocks incident might well have been the result of the market's misunderstanding caused by certain of the issues involved in the Consultation Paper on Proposed Amendments to the Listing Rules Relating to Initial Listing and Continuing Listing Eligibility and Cancellation of Listing Procedures by Hong Kong Exchanges and Clearing Limited. However, the incident has highlighted the shortcomings in the operations of the securities market on the part of both investor education and the Government's regulatory structure. Given the adverse changes in market conditions, an industry consolidation has been in progress. Certain smaller brokers had decided to cease business, while the larger brokers are undergoing a series of cost cutting measures.

As the dull investment climate is not unique in Hong Kong, activity in the primary issue market has also been affected. The response to several major new listings had been mediocre largely because of the slow demand from foreign investors. While Chinese private enterprises are taking an increasing share in new listings on the Stock Exchange of Hong Kong, confidence in the sector was shaken by corporate scandals in the sector which came to light during the review period.

The total size of the market dwindled by 13.9% to HK$3,380.5 billion in terms of total market capitalization of the Main and GEM boards over the review period. The GEM board represented only 1.6% of total market size and accounted for 2.7% of market trading activity. This reflects the continued slowdown in corporate finance activity in emerging enterprises after the burst of the technology bubble in early 2000. It is our belief that a new investment theme will be needed before we can see a return of activity to the primary market.

Business Review

Despite disappointing market performance for the period under review, the Group managed to generate similar revenue compared with the same period 2001. The improved results were attributed to a large extent by the cost rationalization programme.

Securities

Turnover of the unit decreased 13% to HK$48 million and sustained a loss of HK$11.6 million, an improvement of HK$3.6 million compared with last year.

Futures

The unit's turnover increased 50% to HK$12.2 million and made a profit of HK$3.9 million. With the introduction of online futures trading in late August 2002, we expect the unit to outperform the market in the coming months.

Corporate Finance

Despite the keen competition during the interim period under review, our corporate finance division was more active compared to the corresponding period last year and managed to complete 38 assignments. It included 2 IPO issues on the GEM board and 10 IPO underwriting assignments. On financial advisory, the division completed 19 advisory assignments involving advices relating to the Listing Rules and Takeovers Code. In addition, the division acted as manager for 3 rights issues and 4 placements of shares and convertible bonds on the secondary market. The unit's turnover increased 57% to HK$26.5 million and achieved a profit HK$12.1 million.

Margin Financing

Turnover of the unit decreased 25% to HK$52.2 million against the same period 2001 and made a profit of HK$15.1 million. Advances to customers amounted to HK$1.06 billion as at 30 September 2002.

Proprietary Trading

Turnover on proprietary trading amounted to HK$1.4 million and the unit made a loss of HK$1.5 million after charges allocation.

Asset Management

The unit is going to launch an authorized fund in the next three months. Currently the unit has provided discretionary accounts for clients interested in derivative trading models.

Financial Review

Liquidity and Financial Resources

As at 30 September 2002, the Group has cash and cash equivalents of HK$149 million (2001: 37 million) and short-term investments of HK$6 million. The significant increase of cash and cash equivalents was mainly due to the timing difference of reallocating cash that held on behalf of customers and the repayment of margin loans by margin clients at the end of the period.

Both the current ratio (current assets/current liabilities) and ratio of borrowings to total assets as at 30 September 2002 maintained at satisfactory levels of 1.61 (2001: 1.63) and 0.27 (2001: 0.26) respectively. Total borrowings, which were classified under current liabilities, amounted to HK$532 million with a gearing ratio (total bank borrowings and other loans/net assets value) of 65%. Bank borrowings comprised 88% (2001: 84%) of the total borrowings of the Group and were mainly employed for providing clients with margin financing. The interest expense was under tight control during the period and it was reduced by 38% as compared with last interim period. The ratio of interest income to interest expense showed a significant improvement to 5.17 (2001: 4.27). As at 30 September 2002, the Group has total undrawn banking facilities of approximately HK$1,115 million. The directors believe that the Group has adequate working capital to service its business activities.

Prospects

We maintain our view that Hong Kong will remain an important financial center in the region, with the further relaxation of foreign investment into China. Hong Kong still possesses unparalleled advantages in its geographical location, legal framework and all supporting infrastructures. The free flow of capital and human resources through the territory and the rest of the world will not be matched by any Mainland cities in the foreseeable future. Hong Kong will continue to play a supplementary role in the developments of China. Chinese leaders have repeatedly assured us of their support for Hong Kong's prosperity and stability, and we have no doubt about this for the simple reason that Hong Kong is an integral part of the Mainland.

Having established a firm position in the local securities industry, we have endeavored to map out our future expansion plans on the Mainland. We have established strategic offices in Beijing, Shanghai and Shenzhen, in support of our expanding business connection on the Mainland. Our efforts should pay off with the irreversible economic reforms across the border and the immense business opportunities from the country's deregulation moves. Prior to the 16th National Congress of the Community Party of China held in early November, the central government gave the green light for the launch of QFII scheme (qualified foreign institutional investors), which opens the gateway for foreign investments in the domestic securities markets. This marks another important step of opening up the domestic capital markets after the B-shares markets were opened to domestic investors in February 2001.

We are well prepared for successive reforms in China which should offer good business opportunities in either the local or domestic markets. To cope with the ever-increasing demand for efficient trading execution and growing cross border transactions, our significant capital commitment in developing a sophisticated electronic platform for both stock and futures trading should bear fruits in the longer term. We are confident that we will derive benefit from future market recovery with our already established business platforms. In fact, the latest economic data of the US points to a more positive outlook ahead. The local property market has also shown signs of bottoming out after the Government announced the implementation of radical reforms in its housing policy. All these should lead to better investment sentiment ahead.

Our quality of service and corporate governance are well recognized by the market, with further awards for our overall achievements having been obtained during the year of 2002. Our reputation should prove to be a valuable asset for expanding our business in the ever demanding securities industry, which merits customers' trust. Nevertheless, the unfailing support from our shareholders, directors, staff and stakeholders will remain an indispensable factor for the future success of the Group. Our standing Cost Rationalization Committee will continue to monitor closely on the Group's cost level and barring any unforeseen circumstances, we anticipate shareholders will receive satisfactory results for the full financial year.

By order of the Board

WONG Shiu Hoi, Peter
Managing Director

Hong Kong, 11 December 2002