

Management Discussion and Analysis

BUSINESS REVIEW

The year of 2002 was a difficult year for the local economy with falling property price index from 79 to 69, further drop of composite consumer price index from 97.8 to 94.8, and rising unemployment rate from 6.2% to 7.2%. The local financial market was further dampened by incidents of improper accounting records of companies listed on local stock exchange and abroad. Further slow down of the US economy and outbreak threat of war in the Middle East also cast shadows over the financial market. The Group, like the others, is not immune from these effects; but we have managed to adjust quickly to the rapidly deteriorating economy. The Group achieved a profit of HK\$3.9 million before taking up share of loss in an associated company of HK\$3.5 million, amortisation of goodwill of HK\$3.2 million, and writing down of intangible assets of HK\$5.7 million which collectively rendered an overall loss of approximately HK\$8.5 million.

As one of the top licensed leveraged foreign exchange traders, the Group maintained similar business volume of leveraged foreign exchange trading as last year. Interest income derived from deposits placed with counterparties dropped further as a result of further cuts of US Federal interest rate. Revenue from foreign currency option broking soared to HK\$3 million, representing a 11 times increase and proprietary trading doubled to HK\$10.5 million. Local branches were reduced in order to rationalise deployment of resources whilst kept expanding in overseas market. As a result, the operating profit from this segment increased from HK\$10.2 million to HK\$12.2 million.

Our associated company in Japan suffered loss during the year due to high operating costs and poor trading results in foreign exchange and futures. The Group has taken up its share of losses of the associated company and the interest in the associated company was carried at nil value. But it does not indicate that the Group takes a negative view in this investment. Indeed the Group has been benefited from the high volume of both foreign exchange and futures trading generated from this company, and the investment has facilitated the Group's penetration to this affluent market.

Concurrent with the above move, the Group has decided to write off completely in this year the remaining balance of goodwill. Against the past practice of annual amortisation over 3 years, complete writing-off represents a decision upon considering the unexpected drastic change in the market conditions under which the relevant companies are operating.

Profits from corporate finance increased from HK\$0.2 million of 2001 to HK\$2.9 million of 2002 (before amortisation/writing off of goodwill of HK\$1 million and HK\$4 million in year 2001 and 2002 respectively). The corporate finance arm succeeded in sponsoring 4 companies listed on the Growth Enterprise Market and 1 company on the Main Board of the Stock Exchange of Hong Kong Limited, and completed 18 financial advisory transactions.

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The results of personal financial planning services were impressive. The business improved from a profit of HK\$0.05 million in 2001 to a profit of HK\$2 million in 2002. As at the year end, our personal financial planning services operated seven personal financial centers, offering members of the investing public with a distinctive choice of insurance-linked saving plans and unit trust products which are aimed for safer and longer term investment.

The marketing team for overseas commodities trading was strengthened as a result of cross selling and delivered remarkable result. Commodities trading turned around from a loss of HK\$0.2 million in 2001 to a profit of HK\$1.9 million in 2002. Apart from the products traded in Hong Kong Futures Exchange, the Group offers commodities and index futures products in the world's major commodities trading such as the United States and Japan.

The market of stock brokerage has yet to recover. Average daily turnover came down from HK\$7.49 billion in 2001 to HK\$5.96 billion in 2002. Market sentiment remains poor especially at the retail end of the market and investors are reluctant to invest in the stock market. Securities brokerage income came down by 54.7%. In the light of the circumstances, the Group closed 2 branches to cut down costs where appropriate; and excessive human resources were reallocated to other businesses. As a result of cost control measures, the loss before impairment loss of trading right and goodwill amortisation/written off came down to HK\$12,733,373 in 2002.

FINANCIAL RESOURCES

The Group maintained a healthy financial situation throughout the year. All the members of the Group registered with the Securities and Futures Commission have complied with the requirements in the Financial Resources Rules promulgated; and they maintained liquid capital well above the required level. Hence, as at 31st December 2002, the liquidity ratio was 4 times with cash and bank balance maintained at HK\$165 million. Among the members of the Group, only the company engaging in securities trading has short term liabilities due to authorised institutions resulting from provision of margin loan to clients. Account payables were mainly margins payable in respect of foreign exchange trading and expenses accruals.

CONTINGENT LIABILITIES

The case on alleged passing off of trade name "Hantec" still remains. The strategy on defending the case as advised by the legal advisor has been followed. No provision has been made on the matter as the controlling shareholders have indemnified all potential damages, losses, fees and expenses arising from the claim.

The Company also provided guarantees to the members of the Group for securing banking facilities from banks and financial institutions for leveraged foreign exchange trading, securities broking and precious metal contracts trading. The amount of guarantees is dependent on the trading volume with the bank or financial institution concerned. Such banking facilities have been applied in the normal course of business.

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STAFF REMUNERATION AND HUMAN RESOURCES DEVELOPMENT

As in common with other sales driven business, competitive commission schemes are offered to sales and marketing staff in order to boost incentives. The Group's rebate policy has been in line with the market practice. Continuous staff development trainings are offered to all sales and marketing staff in order to maintain professional industry standards and to provide opportunities to sales and marketing staff and their clients to switch among products. The training department is maintained for providing both course material and on the job training to sales and marketing staff, covering product knowledge, marketing technique and regulatory compliance. It also provides courses for the continuing professional development credits required by the Securities and Futures Commission for licensed representatives.

Apart from providing support for staff development at operational level, the Group encourages senior executives to play an active role in contributing towards the welfare of the Hong Kong Special Administrative Region and the PRC community. In the year of 2002 we have our executives providing services to business associations, academic and professional bodies as well as charity organizations; and in addition, our chairman, Mr. Tang Yu Lap, was elected a member of the Chinese Peoples's Political Consultative Conference Beijing Committee responsible for making recommendations on how to improve the overall administrative regime of Beijing City.

FUTURE PROSPECT

A comparison of the distribution of turnover for 2001 and 2002 gives a strong indication that investors are switching investments from the traditional equity market to other products like insurance-linked saving plans, unit trusts, bullion, foreign exchange and commodities contracts. In the light of the fact that the local economy will not be able to ward off recession in the near future, we anticipate that investment funds will not return to the local equity market until the economy shows signs of turnaround. Meanwhile, investors will look for opportunities in other products or simply park funds in bank deposits.

We are also of the opinion that the new Securities and Futures Ordinance and the abolition of minimum brokerage, both became effective on 1 April 2003, will lead to a process of consolidation which ends up with fewer financial services providers. As such, the Group will continue its strategy of, utilising Hong Kong's position of free flow of capital, fair and open legal system and regulatory regime, to provide financial services to overseas markets. As regard the PRC market, the Group will look for appropriate provinces and establish more representative offices in order to promote the business of the Group.

As a comprehensive financial services provider, the Group is benefited by the ability to devote resources to the more promising sectors in the financial field. The enactment of the new Securities and Futures Ordinance in April 2003 allows intermediaries to provide regulated activities under one single licence. As such, the Group will consider consolidating its businesses into one single company which could give the Group more flexibility in managing its financial resources, promoting cross selling, and rationalising manpower to save costs. The Group would actively explore the issues involved in the matter and take necessary actions in due course, and we expect that the consolidation would further propel the Group's image as a full range financial products provider in the market, and the Group will emerge stronger than before.

Tang Ping Sum

Deputy Chairman