

# Management Discussion and Analysis

## BUSINESS REVIEW

### *Overview*

With continued slow economic growth in Hong Kong and weak confidence among consumers, investors and companies, 2002 was a challenging year. The sentiment in the investment markets in Hong Kong was further affected by the accounting scandals, corporate governance issues, crash of the penny shares due to release of the consultation paper, gloomy global economy and the terrorist attacks on various parts of the world. This was reflected in our results for the year, which was generally disappointing. For the year ended 31 December 2002, the Group recorded a turnover of approximately HK\$44 million (2001: HK\$59 million). Loss attributable to shareholders was approximately HK\$29 million (2001: HK\$47 million).

Under this tough environment, the Group has exercised stringent control over costs and has successfully reduced the operating expenses by HK\$3 million to HK\$76 million, representing a decrease of 4%.

A significant step for the Group this year was the change of substantial shareholder. In June 2002, Kingly Profits Corporation (“Kingly”) purchased 363,428,618 shares, which represent approximately 60.57% of the entire issued share capital of the Company, from OSK Holdings Berhad. An unconditional cash offer for the outstanding shares and options of the Company was then made.

After the change of substantial shareholder, a new management team has been introduced. The new management team has extensive experience in the area of corporate finance, mergers and acquisitions, securities work and fiduciary assets management. With their extensive knowledge and experience, the Group will benefit from their significant contributions for future business growth.

Subsequently, in November 2002, the name of the Company was changed from OSK ASIA CORPORATION LIMITED to REXCAPITAL Financial Holdings Limited and the Company has adopted the Chinese name of “御泰金融控股有限公司” for the purpose of identification.

### *Brokerage and Interest Income*

Throughout 2002 and into 2003, the Hong Kong economic conditions remained anaemic which further weakened the equity market sentiments. With a turbulent political environment, negative economic growth and unfavourable investment sentiments prevailing in the global markets, the average daily trading volume on the Stock Exchange shrank by 19% from HK\$8.19 billion in 2001 to HK\$6.65 billion in 2002. The Hang Seng Index also dropped from a close of 11,397 on 31 December 2001 to 8,859 on 10 October 2002, being the lowest closing recorded during the year under review, before recovering to a close of 9,321 on 31 December 2002. Inevitably, the Group’s business was also hit. The gross brokerage commission of the Group dropped by 25% from HK\$40 million in 2001 to HK\$30 million in 2002.

Interest income from margin financing and bank deposits dropped substantially by 56% due to the fall in interest rate and the contraction of margin loan portfolio. Credit limits to individual clients as well as acceptable percentage of the margin securities have been defined based on approved guidelines. Due to the increase in bankruptcy cases, personal/corporate loans granted are subject to more stringent credit assessments.

# Management Discussion and Analysis *(Continued)*

## PROSPECTS

The operating environment in Hong Kong is expected to continue to be very competitive and challenging in 2003. The Group will continue to open new branches and to relocate some of the existing branches to meet the changing demands of customers. At the same time, the Group will continue to strengthen its credit risk management and stringent credit assessment and prudent loan limits for its margin and loan business in light of the high level of personal/corporate bankruptcies in Hong Kong.

After the liberalisation of the commission rates with effect from April 2003, the securities market will inevitably be more competitive and difficult. However, we believe such difficult and competitive operating environment will only phrase out the less efficient participants. As our Group possesses strong balance sheet and competent management team, we should be able to seize upon any business opportunities arising. Further ahead, we are confident that the Group will emerge from this disappointing period in a fundamentally healthy condition, well-positioned to benefit from the opportunities offered by economic recovery in Hong Kong and reform-led expansion in the People's Republic of China (the "PRC").

Our asset and fund management division provides asset management services to investors and it is now in the process of setting up its own private funds. While our asset and fund management division is still at an early stage of development, we believe in the long term, positioning the Group as a fund manager for Greater China is essential to the division's growth strategy.

Our goal is to be a one-stop financial service provider. The continuous expanded arms of business such as financing and asset management have assisted to compensate for the slowdown of activities of the traditional securities brokerage business. In future, we expect the increased synergies among our different services would further strengthen our competitive edge over brokerage houses of similar size.

## FINANCIAL REVIEW

### *Liquidity, Financial Resources and Funding*

At 31 December 2002, the Group had cash reserve of approximately HK\$59 million (2001: HK\$184 million), which include approximately HK\$32 million (2001: HK\$94 million) of clients' funds that were kept in designated bank trust accounts. Most of the cash reserves were placed in Hong Kong dollar short-term deposits with major banks in Hong Kong.

The gearing ratio (total liabilities/total shareholders' funds) as at 31 December 2002 was 36% (31 December 2001: 47%).

The Group had an outstanding unsecured loan of approximately HK\$9 million as at 31 December 2002. The loan was denominated in Hong Kong dollars, unsecured and interest bearing at prevailing commercial lending rates. This loan was used to finance the daily operations of the Group. The Group relied mainly on its internal resources for its funding requirement and hence, only a small portion of the overdraft facilities was utilised. Overdraft facilities were granted to the Group at normal market interest rates and denominated in Hong Kong dollars.

# Management Discussion and Analysis *(Continued)*

## FINANCIAL REVIEW *(Continued)*

### *Pledge of Assets*

At 31 December 2002, listed investments belonging to clients with total market value of HK\$27,776,500 (2001: Nil) were pledged to a bank to secure overdraft facilities granted to the Group. No overdraft facilities granted by this bank have been utilised by the Group as at 31 December 2002.

### *Exchange Rate Risk*

The Group is exposed to a very limited level of exchange risk as the business transactions of the Group are mainly denominated in Hong Kong dollars.

### *Material Acquisitions and Disposals of Subsidiaries*

The Group had no material acquisition and disposal of subsidiaries during the year ended 31 December 2002.

### *Human Resources*

As at 31 December 2002, the Group had 76 employees.

Due to the unconditional cash offer by Kingly, all the share options granted to the directors and employees have been renounced and cancelled after 25 July 2002.

The Group remunerated its employees mainly based on the individual's performance and experience. Apart from the basic remuneration, discretionary bonus and share options may be granted to eligible employees by reference to the Group's performance as well as individual's performance.

The Group will continue to emphasise on staff training and total quality management to better prepare its staff for the upcoming changes and challenges in the market and industry.