



# Managing Director's Review

// *WONG Shiu Hoi, Peter*  
// *Managing Director*

## Review of Operations

### *Overview*

The overall operating results of the Group have been mentioned in the Chairman's Statement and the performances of the major divisions are discussed below. As reported in the last annual report, the Group had a promising start for the past financial year. In general, the Group still faced the major challenge of a downturn in market activity amid the weak investment sentiment. Contrary to the general concerns of the SEHK participants, the removal of the minimum brokerage commission of 0.25% of the value of transactions effective from 1 April 2003 did not seem to have changed the operating environment materially prior to or after its actual implementation. In fact, the Group has been focusing on growth opportunities and cross-border trading initiatives to keep in line with the trend of the global markets, which seek to offer the best combination of transaction cost, liquidity and price discovery.

In addition, the new Securities and Futures Ordinance came into force on 1 April 2003 as well. The new ordinance should facilitate innovative operations particularly in respect of the provision of automated trading facilities and more diversified investment products and yet accords a greater degree of protection to investors. For example, the disclosure threshold for substantial shareholders of listed companies has been reduced from 10% to 5% and the notification period from 5 days to 3 days, so investors will have a better grasp of price-sensitive information. Regarding the regulation of intermediaries, a new single licensing system applies also to frontline and supervisory staff of banks engaging in securities activity. We welcome a level playing field for all market participants. We believe the benefits from the improved market practices would be gradually felt by us with our insistence on integrity.



### *Stock and futures broking*

Commission income from securities broking increased by 4% to HK\$99 million despite the slackened activity in placement of shares and warrants. We have been able to outperform the market due largely to our diversified exposure to professional and retail investors. According to the latest survey by the HKEx, institutional investors and local retail investors continued to be the major participants in the HKEx cash market, contributing 59% and 32% of total market turnover respectively for the period from October 2001 to September 2002. While the survey revealed that on-line trading grew to 8% of retail agency trading value, the contribution from our on-line trading platform has accounted for a much bigger component of our overall cash market business.

The commission income from our futures broking business continued to be satisfactory. After recording an impressive increase of 82% in the preceding financial year, it rose a further 68% to HK\$34 million in the past year. The good results have been attributed to the pick-up in market activity in derivative products, specifically HSI futures and options, as well as our efforts in expanding our customer base in both the institutional and retail segments. Our recently launched on-line trading platform for futures dealing has proven an added impetus to our futures broking business.

During the year, the performance of our branch operations was also satisfactory. However, subsequent to the end of the financial year, the Jordan branch was closed as we considered a merger with the nearby Mongkok branch to be more cost effective. Operating eight branches in Hong Kong and one branch in Macau, the Group possesses the largest retail branch network among the local non-bank securities houses.

### *Corporate finance*

The division suffered from a slow primary market in the past year. Its revenue was however improved by 37% to HK\$39 million owing to increased advisory fee income.

According to the HKEx's statistics, total funds raised amounted to HK\$110 billion in 2002, an improvement from HK\$65 billion in 2001. However, fund raising activity was still significantly behind that in 2000 when HK\$452 billion of funds were raised through the SEHK. Our corporate finance division was able to secure many corporate deals in Hong Kong and Mainland China, with 49 assignments completed during the year. These included two IPO sponsorships on the Main Board, four IPO sponsorships on the GEM Board, one IPO lead manager on the Main Board and 12 IPO underwriting assignments. On financial advisory, it had completed 23 advisory assignments. In addition, the division acted as manager for two rights issues and five placements of shares and convertible notes in the secondary market. As a number of IPO deals is PRC-related, the health crisis due to SARS in major Mainland cities in the past few months has had a major impact on the progress of some on-going assignments and hence the booking of certain revenue thereon. Through our three representative offices in Beijing, Shanghai and Shenzhen, we are keeping close contacts with the business community in Mainland China.

### *Securities financing and money lending*

As at 31 March 2003, our portfolio of margin financing and loans receivable had a balance of HK\$1,043 million, down from HK\$1,256 million a year ago. Coupled with the lower interest rate trend, our interest income declined by 19% to HK\$98 million for the past financial year. Despite our lower cost of funding, net interest income still suffered a 14% decline to HK\$81 million. In addition, there was a total provision of HK\$33 million for doubtful debts, compared to HK\$75 million made in the preceding financial year. We believe the major bad debt problems carried from past years have been adequately provided. While our lending policy is tailored to facilitate our cash market business, we remain prudent in respect of setting the margin limit and in assessing the quality of the collateral stocks.

### *Other investment services and activities*

As reported in our past annual reports, we have been keeping our efforts in strengthening our asset management team targeting mainly on the Mainland China market. Pending the full opening of the China market, we will continue to seek joint venture opportunities with domestic partners. While we are well positioned to launch a public investment fund soon, the contributions from this division will remain insignificant in the near future in view of the start-up period required.

Our research division has played a pivotal role in providing value-added investment services and non-consensus investment ideas to our clients. The division has published an investment book providing comprehensive investment guidance and opinions on red chips and H-shares for distribution in bookshops nationwide on the Mainland. This is the first publication of its kind tailored to the emerging interest of Mainland Chinese investors in offshore investment opportunities. In addition, the division undertook a joint research project with the Shanghai Stock Exchange on the topic of "The trend of merger and acquisition activity in Hong Kong" which was completed in December 2002 and released to the public in March 2003. This was a precious opportunity to cooperate with one of China's leading financial institutes. Abstracts of our research reports and analyst write-ups appear on all major newspapers in Hong Kong and selected leading financial press on the Mainland, while the full reports are available on our own website. We expect this division to act as an important driver in promoting our business not only in Hong Kong but also in the Mainland market going forward.

As at 31 March 2003, we held listed investments with a total market value of HK\$33 million, including HK\$28 million of securities held for long term investment and HK\$5 million held for trading purpose. With the expected improvement in market sentiment, we foresee a significant

improvement in investment and trading income ahead with our research-backed trading approach.

### **Future Plans**

We will continue to strengthen our core business in stock and futures broking with the support from our IT and research initiatives. In addition to our emphasis on market-driven and IT-driven services, we will continue to expand our range of investment products which conceivably should include debt, derivatives, foreign exchange and other commodity instruments, in addition to the traditional equity products, originated locally or overseas. Our IT support has enabled complete trading and settlement convenience through all available electronics and communications means in the marketplace.

We also see great potential for developing our corporate finance and asset management businesses in Mainland China. In fact, a large part of our corporate finance deals had originated from the Mainland and we believe that this trend will continue. However, we will be extremely selective in identifying suitable listing candidates in the domestic market. With our presence and growing reputation in the China market, we are confident about the future deal flows to our corporate finance operations and the trust in our asset management business.

We are not forgetting our strong foundation built in the local market, with our significant share of the retail investor market. Following our successful recruitment drive during the ongoing consolidation in the industry, we have expanded our teams of sales professionals significantly. Where situation warrants, we will seek to expand our retail branch network in Hong Kong, in particular in new towns in the New Territories. We aim to become a preferred securities house for both capable sales professionals and investors. Our strong financial background and our integrity in the industry will prove a major asset for achieving this goal.



We promise that our dedication to the Group will be unscathed irrespective of the changing market conditions. In fact, our spirit remains high notwithstanding the passage of all the adversities in recent years. In the past financial year, the Group has made good progress in every major aspect of our operations which should assure our resiliency. This is a good opportunity to express my thanks to all our staff, shareholders and stakeholders for their continued support for the Group.

**WONG Shiu Hoi, Peter**

Managing Director

Hong Kong, 16 July 2003