



MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the period under review, the Group's turnover dropped by 13.8% to HK\$29.4 million this year. However, the net profit for the period soared by 46.2% to HK\$11.1 million, thanks to the gradual improvement in the stock market and the successful control of operating costs by the Group.

In fact, the stock market has experienced both the bearish and bullish times during the six-month ended 30th September, 2003. Because of the SARS outbreak in early 2003, the benchmark Hang Seng Index has bottomed to its 54-month low at 8,409 in April 2003. After suffering from the effect of the depressed economy for few months, the stock market was then fuelled by various favourable news, particularly the SARS being contained in June 2003, coupled with the announcement of the relaxation of mainland travel restriction and the signing of the Closer Economic Partnership Arrangement with Hong Kong by the China officials to boost the local economic activities. The Hang Seng Index finally soared by 34% to 11,296 on 14th September, 2003, the highest since June 2002 during the period under review. The upward trend was accompanied by the increase in average daily trading volume during the period, which surged by 10% to approximately HK\$7.3 billion compared to the same period in 2002. The driving force mainly came from the post-SARS period from June to September 2003, during which the average daily turnover jumped by approximately 85% to HK\$11 billion, compared with a year ago.

The Group successfully capitalised the above opportunities to increase its commission and fee income from stock and futures brokerage to approximately HK\$16.6 million, representing an increase of approximately 17.9% over the same period last year. Together with the tight control on operating costs, the segmental profit of broking section has a substantial soar by 680% from HK\$0.8 million to HK\$6.1 million this period.

The segmental profit of securities margin financing stood at HK\$8 million for both periods under review, as a result of reduced interest income from margin loans offsetting by the effect of saving in financial costs.



Financial Review

The Group has always maintained a high level of liquid assets for operation. The Group's net current assets were amounted to approximately HK\$249.2 million, representing an increase of approximately 3.3% since the beginning of the period. The outstanding borrowings, comprising bank overdraft and short term bank loans, have decreased from approximately HK\$56.5 million at 31st March, 2003 to approximately HK\$11.1 million this period. The bank borrowings, being interest bearing on a floating rate basis, were principally procured to finance margin loan granted to securities margin clients and secured by the margin client's pledged securities.

The gearing ratio of the Group (total liabilities over total shareholders' funds) was reduced to 0.26 times as at 30th September, 2003, compared to 0.4 times as at 31st March, 2003.

The business activities of the Group had not exposed to material fluctuation in exchange rates as majority of the transactions are denominated in Hong Kong dollars.

As at 30th September, 2003, the Group had no material contingent liabilities and no material capital commitment.

Staff

As at 30th September, 2003, the Group had a total of 27 employees and 63 account executives, 14 of whom were also employed as full time employees of the Group. Our staffs are remunerated based on the industry practice and individual's performance.

Prospects

The bullish trend in the stock market seems to be sustainable in the second half of financial year 2003/04, as evidenced by the achievement of a 2-year high Hang Seng Index to 12,441 in November 2003, accompanied with an average daily turnover of approximately HK\$14.9 billion for the two months ended November 2003. Besides, the news of the improved buying sentiment in the properties market recently also fuelled the recovery of overall investment confidence. We concur with the view of Hong Kong government that the worse time in Hong Kong economy has gone. While we are continuing to develop into a one-stop financial centre, the management of the Group is looking for varieties of projects in different business sectors. The Group will in the future participate in diversified investment portfolio in order to capitalise the opportunities arise during this recovery period.