Review of Operations

The Hong Kong financial market exhibited significant fluctuations during 2003. The Hang Seng Index dived to its trough of 8,409 on 25th April 2003 as a result of the SARS outbreak. Market conditions have gradually recovered since June due to the rapid economic recovery in the world's major economies and the emerging markets, a free-trade type of agreement between the Hong Kong and Mainland China (which was subsequently named the Closer Economic Partnership Arrangement or CEPA), and a free-travel scheme allowing individuals from the Mainland to travel to Hong Kong. These measures immediately injected new momentum into the local economy and produced a significant up-swing in the retail, hotel, travel and other related industries. Foreign capital started to flow into Hong Kong which further added fuel to the stock and property markets, bringing the Hang Seng Index to close at 12,576 at the end of 2003.

Upon implementing a series of cost rationalisation measures, the Group, now operating on a lean cost structure, is well positioned to capture opportunities stemming from the regional economic recovery. During the year, the Group achieved a net profit after tax of HK$2.88 million. As compared with a net loss of HK$10.52 million in the year 2002 when there was amortisation of goodwill of HK$3.24 million, a need to write-off goodwill and trading rights of HK$5.74 million and the recognition of impairment loss of investment in an associated company of HK$3.46 million, the turnaround situation was aided by a net contribution after taxation from investments in overseas associated companies of HK$1.36 million.

Leveraged Foreign Exchange Trading

The foreign exchange market in 2003 was one of the highest volatility levels in recent years. Practically all major currencies appreciated against the USD, viz. Euro from 1.031 to 1.265, Yen from 121.9 to 106.6, and GBP from 1.545 to 1.795. For retail investors, currency fluctuations represented good opportunities to obtain more attractive yields albeit with higher market risk. Yet the return of positive conditions in the local equity market in the second half of the year has re-directed certain funds back to equity investments, thus leading to a drop in our commission income from foreign exchange trading. Revenue from options trading was similarly affected due to slower activity levels. The aggregate of these effects was that net profit generated from leveraged foreign exchange trading decreased from HK$12.2 million in 2002 to HK$7.8 million. The Group, however, lost no time in promoting foreign exchange trading activities overseas. 北京康景商業顧問有限公司 was opened in August 2003 as a wholly owned subsidiary of the Group, and is now actively servicing our existing and potential clients in the PRC market by providing them with the latest market information and research. The hantecefx.com continues to be our most popular on-line trading platform, generating 44% of our total turnover in leveraged foreign exchange trading. To cope with the increasing volume of on-line traffic, the existing trading platform has been overhauled and the Group is in the process of enhancing the front-end trading system, such that more speedy and sophisticated trading features can be provided to our clients. It is expected that the enhancement will be completed by the end of 2004.

Management Discussion and Analysis

Securities Dealing

The bullish market sentiment prevailed in the second half of 2003 was supported by buyeont market activities. Average daily market turnover during the said period was HK$11.8 billion which represented a remarkable 87% increase over the HK$6.3 billion of the first half of the year and 2.3 times of the HK$5.12 billion in the corresponding period of 2002. The Group benefited from the positive environment, with the average monthly stock brokerage commission income derived from the second half of 2003 increasing by 76% as compared with the first half of the year, and 52% above the corresponding period of 2002. Total administrative and operation costs for the brokerage business were rationalised by 32% during the year, bringing down the losses to HK$2.9 million from HK$17.7 million a year ago. Although occasional fluctuations in the stock market are inevitable after a long bullish run, it is expected that the current market activities will be sustained in view of the fact that the local economy is gradually becoming part of the free trade zone of the Pearl River region. We are optimistic that the result of our stock brokerage arm will return to the black in the coming year.

Corporate Finance

Turnover from the corporate finance business slipped back from HK$10.9 million in 2002 to HK$7 million in 2003 as the market was severely disrupted by the outbreak of SARS in the region. A loss of HK$1.5 million was registered. During 2003, the department sponsored one main board listing and completed 15 transactions, and has been actively involved in IPO activities. After a period of decline in the primary market, there are now a number of PRC enterprises looking for listing opportunities in Hong Kong. It is expected that, under the current positive trend, there will be more successful listings sponsored by our corporate finance department during the coming year.

Commodities Trading

The decrease in volume of contracts in overseas commodities trading has resulted in a 45% lower turnover of our commodities futures trading, and a net loss of HK$1.34 million. To further strengthen the sales and marketing team of the department, there are plans to recruit additional account executives and to facilitate trading services by introducing an on-line trading platform. In addition, with the continuous expansion of our business presence in the PRC and the overseas markets by way of joint ventures and subsidiaries, the medium term outlook of the business is promising.

Asset Management

The performance of our Hantec Balanced Growth Fund achieved a 37.3% appreciation of the net asset value, which was in line with that of the Hang Seng Index, the MSCI AC Asia Pacific Index, and the global economic recovery. In order to broaden the income base, the asset management team extended their services to investment in companies listed under Chapter 21 of the listing rules of The Stock Exchange of Hong Kong Limited. However, due to the changes in the relevant rules and regulations on the listing of investment companies, the number of new listings in this category was reduced significantly and, as a result, hindered our expansion in this area. Nonetheless, with the consistent performance of our portfolio management and our acquisition of the asset management company subsequent to the financial year end, it is envisaged that the business will be granted the opportunity to expand beyond the domestic front.

Financial Planning

The financial planning business operated 7 personal financial planning centers during the year. Due to the bullish equity market in the second half of 2003, the growth in sales of unit trusts was positive and, having taken into consideration of the change of the basis for recognising revenue derived from financial planning agency broking the business recorded a 100% increase in revenue and a 69% increase in net profit. Throughout the past few years the Group has built up a stable client base through proactive marketing campaigns and prudent compliance controls, and has established a stable and consistent income source for the Group to take on the challenges that lie in the future.

Bullion Trading

Although bullion trading only commenced operation in the second half of 2002 on a commercial scale, the business has recorded profitable operations during the past 2 years. Business volume has been growing consistently, and with our prudent margining and dealing approach, it is expected that the Group will continue to benefit from the bullish bullion market which has attracted increasing investors' attention and interest.

Financial Resources

Throughout the year the Group has maintained a healthy financial status. The Group companies licensed by the Securities and Futures Commission have maintained liquid capital in excess of the required amounts prescribed by the Financial Resources Rules. The liquidity ratio as at the end of the year stood at three times the required amount with cash and bank balances of HK$155 million. Accounts payable were mainly margins payable to clients arising from trading. Bank overdrafts were utilised to support margin financing extended to our securities margin trading clients.

Contingent Liabilities

The case regarding the alleged passing off of the trade name "Hantec" remains outstanding. Active communications have been held with the plaintiff to mitigate any misunderstandings. No provision has been made for the case, as the indemnification given by the controlling shareholders for potential damages, losses, fees and expenses incidental to the case continues to be effective.

The Company has provided a corporate guarantee to certain financial institutions for facilities granted to the Group's subsidiaries engaging in leveraged foreign exchange trading, bullion trading and securities trading.

Management Discussion and Analysis

Client Relations

As a service-oriented organisation, it has been the Group's priority to maintain good client relationships, and abundant resources have been allocated for such purposes. Given the high volatility of certain financial products and the marketing staff's aggressive sales techniques, it is inevitable that misunderstandings and sometimes unfortunately, complaints from clients arose. A team of experienced and dedicated compliance and internal audit staff has been formed and charged with the specific task of responding to these complaints in a timely manner, and work closely with regulators, where necessary, to address the areas of concern. The team would report to senior management on the progress of case settlement, and senior management would in turn determine the need to strengthen our internal systems in order to reduce the frequency of incidents arising from client dissatisfaction.

Remuneration and Staff Development

Sales and marketing staff of the Group were remunerated under competitive commission schemes. Performance of the outstanding staff was duly recognised and rewarded by promotion and other incentives. On going in-house training on product knowledge, marketing techniques and regulatory compliance were provided to both front-line marketing and support staff.

Looking Forward

While it is good timing for the Group to capture the opportunities arising from the recovery of the local equity market, the Group will continue its long term strategies of maintaining a solid establishment, as a comprehensive financial services group in Hong Kong which is still perceived as a financial centre featuring open and fair regulatory regime; and at the same time expanding into neighbouring financial markets such as the PRC, Taiwan and Japan. In general, overseas business started to generate positive result. At the same time, the Group lost no time in closing the representative offices in Manila and Tokyo in order to avoid duplication of business presence. The progress in these offshore investments indicates that market potential in these areas deserves our attention, and the Group will strengthen its presence by training up more professional staff and increasing marketing activities. As regard the marketing front in Europe, the Group has plan to establish an office with a view to providing financial services activities in Europe.

Tang Ping Sum
Vice Chairman