Management Discussion and Analysis

■ The Market in 2004 ■

Despite high oil prices and rising US interest rates, the Hong Kong economy revived progressively. The Gross Domestic Product ("GDP") of Hong Kong economy grew by 8.1% in 2004, which was the second fastest since 1987. The dynamic recovery stemmed from buoyant inbound tourism due to the influx of Mainland China ("Mainland") visitors under the new Individual Visit Scheme, surge of domestic consumer spending, and subsiding unemployment rate at 6.5% in the fourth quarter of 2004 which was the lowest in the past 35 months. Composite Consumer Price Index ("CPI") in the third quarter of 2004 increased by an average of 0.8% over the past year, bringing an end to the prolonged deflationary period since November 1998; and in the residential property market, average price rose by about 25%. In tandem with the renewed weakening of the US dollar and strong global demand across many territories, especially the Mainland, external trade continued to flourish in the third quarter. In other words, the recovery of the Hong Kong economy stemmed partially from the performance of high volume exports to external market, which was 3.5 times of private consumption expenditure. Furthermore, the economic upturn stimulated a strong performance in the local securities market. Hang Seng Index closed at 14,230 which was a 13% increase over 2003, and the aggregate of the turnover value of the main board and the GEM reached a record high of HKD3,974.1 billion which was slightly higher than that recorded in 1997. Similar to the tourism industry, the impact from the Mainland on the securities market was conspicuous. Turnover value of shares of Mainland companies was HKD1,555.8 billion representing 39% of the total turnover; and initial public offerings ("IPO") by Mainland companies raised HKD55.3 billion or 57% of the total amount of capital raised by IPO last year. In the foreign exchange market, major currencies exhibited a range-trading pattern against the US Dollar from beginning of the year to October 2004, but they broke the pattern and moved up significantly against US Dollar towards the end of the year. The significant price movements in the foreign exchange market continued to foster investor sentiment, fuelling even more speculative activities in the margin trading market. In the bullion market, price ranged between USD426.38 of 9th January 2004 to USD374.85 of 13th May 2004; and, as a result of weakening of US Dollar and that oil prices rocketed to historical high of USD55.17 per barrel in October 2004, bullion price rose to USD456.89 on 2nd December 2004. The high market volatility attracted more trading activities underpinning a buoyant bullion market.

■ Summary of Operations ■

With a favorable turnaround of the market sentiment and as a result of our long-term strategy of leveraging on Hong Kong's position as a financial centre and developing business in overseas market by a professional team, the Group's net profit after tax attributable to shareholders grew from HKD2.9 million in 2003 and to HKD23 million in 2004, of which HKD16 million was generated from local operations and about HKD7 million from overseas subsidiaries and associated companies. Fully diluted earnings per share was HK5.91 cents (2003: HK0.74 cents), and net asset value per share increased from HKD0.655 as at the end of 2003 to HKD0.695 at the end of 2004. Whilst leveraged foreign exchange trading remains the key driver of our revenues, remarkable growth was noted for bullion trading, and, after years of tenacious business development, overseas associated companies started building up sizeable client base and business volume; and contributed an aggregate of HKD12 million net profit before tax, representing 39% of total net profit before tax for the whole group.

Leveraged foreign exchange trading

Apart from slight decreases of interest income derived from bank savings deposits and lower revenue from currency option trading activities, there were slight increases in revenues on all fronts. The Group kept expanding its sales and marketing networks in the Mainland and established representative/information-gathering offices in Beijing, Shanghai, and Wenzhou. The expansion of these marketing networks has helped increase our client base and business volume significantly. After a range-trading pattern in the first half of the year, major currencies appreciated sharply against the US Dollar, attracting a lot of speculative positions in both institutional and retail ends of the market. As a result, swap interest revenues and trading profits increased significantly in the second half of the year. Option trading income decreased because option trading activities slowed down in the third and fourth quarter. The Group trimmed down option trading as such positions require sizeable amount of liquid capital that could be better deployed to generate higher return in other trading activities. Internet trading platform has become more and more important for exploring new markets overseas. Upon completion of enhancement of the current foreign exchange trading platform in the fourth quarter, the Group lost no time in developing a more robust and user-friendly trading platform. It is expected the new trading platform will be launched in the second half of 2005 which will greatly enhance our ability to further expand our market share.

Securities dealing

After a downward adjustment from 13,918 on 1st March 2004 to 10,967 on 17th May 2004, the stock market gradually gained back momentum; and Hang Seng Index closed at a high level of 14,230 on 31st December 2004. In addition to stimulus from a recovering economy, the stock market was fuelled by influx of hot money speculating appreciation of RMB, and rallies related to casino-concept stocks also helped sustain a booming retail market in the fourth quarter. As such, commission income increased by 21% and interest income from clients using margin financing facilities increased by 54%. Total income from securities dealing rose by 27%, and the department significantly reduced losses from about HKD3.7 million in 2003 to about HKD1.9 million in 2004. It is expected that the vibrant inbound tourist inflows and the thriving property market will lead to a continued recovery of the local economy. There had been consultation from the regulator proposing to introduce regulations on margin financing with an aim to impose a limit on the maximum percentage of stock collateral a broker may procure from a client. If introduced, the turnover at the retail end of the market would be further reduced. In the circumstances, the Group will continue to explore clientele in the Greater China region in order to broaden the client base of the stock brokerage business.

Management Discussion and Analysis

Corporate finance

Managed by a small but efficient team of experienced professionals, the corporate finance department executed 11 transactions playing the role of financial adviser/independent financial adviser. The team also acted as on-going sponsor for 9 companies listed on GEM; and was actively involved in several IPO cases. Among these IPO cases, two were substantially completed, but the listing of the shares of those two companies were delayed to the first quarter of 2005 due to extended investors promotion campaigns. Given the closer economic links with Mainland and that the current Mainland stock liquidity issues remain to be resolved, we foresee that there will be more Mainland enterprises seeking listing in overseas markets, and Hong Kong's open regulatory regime and geographical proximity could make a convenient choice for them.

Financial planning and wealth management

The financial planning and wealth management unit operated 7 centres during the year. Under the management of a team of experienced professionals, the unit maintained similar scale of market share despite growing competition from insurance companies and agents from property market. The fluctuation in turnover and gross profit was largely due to a change of the basis of revenue recognition in 2003 which was applied retrospectively. So far the bulk of the client base is local. With the acquisition of the asset management company in Taiwan, the team will leverage on the Taiwan market network and will promote the Group's services and products to Taiwan investors.

Asset management

Our investment management services achieved 10.87% growth which was, in line with the MSCI AC Asia Pacific Index, a moderate appreciation after a significant upswing in 2003. Dividend payout was USD0.39 representing a yield of 3.75% per share. During the year the company ceased to act as investment manager for an investment fund listed under Chapter 21 of the Listing Rules of The Stock Exchange of Hong Kong Limited, and concentrated on providing investment advisory and fund management services to clients. The result was that the unit significantly reduced its loss and was close to breakeven in 2004. In view of the high volatility in the foreign exchange and bullion markets, the asset management team will consider structuring a hedge fund with portfolio comprising foreign exchange, bullion and futures trading on a leveraged basis. This will provide a more balanced choice to investors who are willing to take higher risk in return for higher return by leveraging their investments.

Bullion trading

Bullion price fluctuated in the range between USD426.38 and USD374.85 in the first half of the year, followed by the weakening of the USD, the price of bullion appreciated to USD456.89 towards the end of the year. The volatile market attracted more investors speculating for profits. The Group has been successful in offering competitive spreads and close to market price quotations in order to tap increased trading volume and maintain a modest cost structure. As a result, total income derived from bullion trading increased by 132% and net profit before tax was nearly 11 times of last year. We expect bullion will, after short term corrections, continue its bullish run; and that there will be high volume of trading activities in the market. Our next strategic move is to enhance the current bullion electronic trading system so that more investors will be able to execute orders on a robust and user-friendly platform.

Trading of commodities futures contracts

In order to maintain proper risk management for the Group's commodities trading business, high-risk client turnover was rationalised, and as such revenue from trading of commodities futures contracts decreased by about 10%. Yet the unit was successful in controlling operation costs; and as a result net loss from operations was reduced from HKD1.33 million in 2003 to HKD1.26 million in 2004 even though there was a special writing down of the value of the trading right held in the Hong Kong Futures Exchange Limited. Business forecast for the coming year is promising as the Commodity Research Bureau/Reuters Index ("CRB Index") rose to its recent high level of 305, which was the highest level since the peak of 334.8 on 28th November 1980. High commodities prices and a volatile market has started lifting up client trading volume, and it is anticipated that sales volume will be further boosted to a higher level when the enhancement of the existing on-line trading platform is completed; and the Group is considering further injection of working capital to the unit in order to cope with increasing sales volume.

Financial resources

Throughout the year the Group has maintained highly liquid assets. As at the year-end date, cash and cash equivalent remained at 18% of the total assets and liquid ratio stood at 3.42 times of the current liabilities. Bank overdrafts and bank loan were solely for facilitating securities margin financing extended to securities margin trading clients. Accounts payable were mainly margins payable to clients arising from trading within two business days after the trade date.

Material acquisitions and disposals

During the year the Group acquired 70% of the issued share capital of 富林國際證券投資顧問股份有限公司 from independent third parties for a cash consideration of HKD9.2 million. The company is principally engaged in the provision of wealth management, investment advisory and consultancy services. In addition, during the year the Group disposed of 10% of the issued share capital of Fuji Hantec Forex Japan Company Limited ("Fuji Hantec") to an independent third party for a cash consideration of HKD2.3 million. Since the disposal, the Group did not have any representation in the board of directors of Fuji Hantec; and the Group reduced its influence on the management of Fuji Hantec to the minimum.

Contingent liabilities

The Company has provided certain corporate guarantees to its wholly-owned subsidiaries in securing banking facilities for leveraged foreign exchange trading, bullion trading and securities trading.

The case regarding the alleged passing off of the trade name "Hantec" remains outstanding. The Company sought to have communication with the plaintiff to mitigate misunderstandings. As the indemnification given by the controlling shareholders for potential damages, losses, fees and expenses incidental to the case remains effective, no provision needs to be made for this case.

Management Discussion and Analysis

Remuneration and staff development

Sales and marketing staff of the Group were remunerated on competitive schemes. Additional awards in form of cash and benefit in kinds, such as traveling packages were paid to outstanding account executives. As result of the improved performance of the Group, the management decided to pay bonus to all staff according to their respective contributions and performance. In addition, on-going training on product knowledge, marketing techniques and regulatory compliance were provided to both marketing and supporting staff.

Looking forward

Latest statistics released by the government indicated that in 2004 GDP grew by 8.1% in real terms, and revenues from hotels and non-bank financing industries increased by 39% and 33% respectively. A high number of visitors arrival and positive wealth effect helped boost up the retail sales industry. In 2005, the retail sales figure for January recorded a value of HKD19 billion, which was only 4% behind the high level recorded in 1997. Meanwhile, the CRB Index rose to its 24 years' high and it appears that oil prices are not likely to fall below USD40. The imminent interest rate hike in the US is likely to raise local interest rate by 50 basis points this year. Against a backdrop of these mixed influences, we expect that Hong Kong economy will continue to grow but at a modest rate; and we shall continue our long term strategy of leveraging on Hong Kong's renowned position of regional financial centre and build up our business presence in the Mainland and overseas markets. This will include expanding our sales and marketing network in the metropolitan cities of the Mainland and Europe, which will be supported by a newly developed on-line trading platform scheduled to be launched in the second half of the year. In addition, the Group will structure more products for overseas subsidiaries/associated companies in order to help expand market share in respective countries; and we are confident that this will bring high return to our fellow shareholders.

Tang Ping Sum
Deputy Chairman and General Manager

7th April, 2005