

Managing Director's Review

Review of Operations

Overview

Benefiting from the remarkable recovery in market activity last year, our broking business performed strongly during the period. Mainland Chinese enterprises played an even more important role in both the primary and secondary markets. Funds raised by Mainland enterprises amounted to HK\$113.7 billion in 2004, representing 41% of total funds raised from the market last year. Average daily turnover of Mainland stocks amounted to HK\$6.7 billion, or nearly half of the total stock turnover. These patterns of activity have been most beneficial to our broking business given our large retail client base favouring trading in secondary counters and our increased coverage of Mainland customers. We have also offered diversified trading products including equities, foreign exchange and commodities, and futures and other derivatives, in various markets to meet the diverse needs of our customers. Our margin financing facilities have continued to serve the purpose of assisting trading activities of our more aggressive customers. It is particularly worth highlighting that the profit contributions from broking and margin financing accounted for 87% of total segment results for 2004.

Stock and futures broking

Commission income from securities broking amounted to HK\$160.6 million, or 45% of the Group's total turnover for 2004. Commission income from the broking of related derivatives products also reached HK\$55.0 million, an encouraging share of 15% of total turnover. The division made a segment profit of HK\$52.3 million. We have maintained a significant share of the derivatives markets in Hong Kong. Our competent sales professionals, supported by our efficient electronic trading and settlement systems and other management backups, are well equipped to grow their business when market conditions are favorable. Our value-added investment research, extensive branch network and marketing campaigns have proven to be valuable tools to secure and retain new and existing customers.

Transactions through our online platform have consistently accounted for over one-fifth of our trading volume and our proprietary IT system with increased capacity, speed and reliability has continued to be extended to a wider spectrum of securities and other related financial products. We have also gained increased institutional business through offering our dedicated trading engines and unbiased investment opinion.

Corporate finance

After a quiet year in 2003, during which securities industry was adversely affected by the then sluggish economy, in 2004, we had managed to leverage on improved market sentiment. We recorded advisory fee income of HK\$19.5 million and underwriting commission income of HK\$17.3 million for 2004, which in aggregate represented over 10% of the Group's total turnover for the year. A segment profit of HK\$2.4 million was generated. During the period, we completed 6 IPO sponsorship assignments, 27 IPO underwriting assignments, 4 share placements and 35 corporate advisory assignments. To a large extent, the earnings performance of the division depends on both market conditions and the scheduling of our assignments. Given the jobs in hand and our enhanced ECM capability, we expect to see resilient contributions from this division going forward.



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Managing Director

Securities financing and money lending

Advances to customers dropped to a balance of HK\$789.1 million as at the end of 2004 from HK\$1,133.6 million a year ago but still represented 80% of our net assets. The division made a segment profit of HK\$23.2 million after making a small charge for bad debts. This reflected the sound quality of our loan portfolio. There was a great demand for IPO financing from retail investors and we are well capitalised to meet the demand as it arises. To maintain our competitiveness, we foresee sustained pressure on our interest margins.

Other investment services and activities

We have continued to expand our exposure to trading & investment activity and satisfactory results have been achieved. Together with the realised gains on the sale of certain strategic investments, we reaped a segment profit of HK\$9.7 million from trading & investment in 2004, representing about 11% of the total segment results. The market value of listed investments reached HK\$30.8 million as at the end of 2004, representing 3% of our net assets. We shall continue to focus on quality and undervalued investments based on the strength of our independent research and asset management.

Our asset management business has taken advantage of the increasing demand for foreign management expertise from Mainland investors and investment institutions to expand its fund size. We teamed up with CM-CCS Securities and Century Securities to launch two investment funds, aiming to capture growing investment opportunities in the Hong Kong and Mainland markets for investors wishing to enjoy the fruits of China's rapid economic growth. We envisage that ample investment funds may be tapped from affluent countries where rising high net-worth individuals will be looking for investment alternatives in China.

Future Plans

We reiterate our continued efforts to strengthen our market positions through market penetration and the provision of value-added services, backed by our management skills and IT capability. Our unfailing efforts will form the major driving forces of our core businesses comprising broking, investment banking, asset management and trading & investment, which in turn will drive the overall performance of the Group ahead. We shall strive to ensure customer satisfaction and confidence in our Group, which are fundamental to any corporate developments.

We shall continue to attract suitable talents to cope with the development needs of our core operations. Our significant investments in IT capability in the past several years are indispensable in keeping our competitiveness in the fast moving market. Our next focus will be growing our established businesses by providing attractive incentives to stimulate performance. We have already captured a sizeable clientele to leverage our business expansion in Hong Kong and across the border. We have set up representative offices and subsidiaries in major Mainland cities, including Beijing, Shanghai, Guangzhou and Shenzhen. The outlook for the Group is encouraging as we have already established a solid foundation in our target markets and a niche amongst our potential customers. Our performance will be better monitored and measured after the implementation of the Balanced Scorecard, which makes our corporate objectives more transparent. Longer term, we are confident that sustainable growth would be achieved by stepping up our marketing effort, further leveraging our established goodwill in the industry.

WONG Shiu Hoi, Peter

Managing Director

Hong Kong, 12 April 2005