MANAGEMENT DISCUSSION AND ANALYSIS

Business review

During the period under review, the Group recorded an impressive growth and profit, turnover significantly increased by 118.1% to approximately HK$67.4 million, while the net profit increased by 99.7% to approximately HK$24.1 million compared to the result a year ago.

For the six-month period ended 30th September, 2005, the stock market posted a mixed performance. Though it was affected by the higher oil prices and interest rates and the HSI hit at 13,622 in May 2005, the Chinese and local economies kept the local stock market resilient. Together with the major China State-owned financial institutions listing on the Hong Kong Stock Exchange, a strong upward trend with high turnover emerged in June 2005. The average daily trading volume in the stock market during the six-month ended 30th September, 2005 soared to approximately HK$18.2 billion, representing an increase of 39% compared to the same period in 2004. The benchmark Hang Seng Index jumped to 15,429 as at 30th September, 2005, compared to 13,120 on the same date in 2004.

The Group's commission and fee income from brokerage segment dramatically up by 147.4% to approximately HK$40.8 million this period, partly due to the acquisition of a brokerage arm ("Pacific Challenge") which produced a strong income stream through their account executives and customers added throughout the period.

On the other hand, due to the increase in average outstanding securities margin loans during the period, interest income from securities margin financing has increased by 75.1% to approximately HK$24.6 million, contributing a segmental profit of approximately HK$16.5 million.

Financial Review

The Group is in a strong and healthy financial position. As at 30th September, 2005, the shareholders' fund of the Group amounted to HK$584.5 million, representing an increase of HK$96.2 million or approximately 19.7% from those of 31st March, 2005.

As at 30th September, 2005, the Group's net current assets was amounted to approximately HK$605.1 million, increased by 70.1% compared to the net assets at 31st March, 2005. The Group's outstanding borrowings, comprising bank overdrafts and bank loans repayable within one year, have significantly decreased from approximately HK$128.9 million at 31st March, 2005 to approximately HK$12.2 million this period, mainly attributable to issuing of convertible bonds during the period. The bank borrowings, being interest bearing on a floating rate basis, were principally procured to finance securities margin loans granted to clients.

The gearing ratio of the Group (total liabilities over total shareholders' funds) has significantly reduced to 0.56 times as at 30th September, 2005, compared to 0.71 time at 31st March, 2005.

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, 2005, the Group had available banking facilities amounting to HK$626 million, of which approximately HK$12 million was utilized. The banking facilities were secured by client's pledged securities and corporate guarantees provided by the Company.

As at 30th September, 2005, the Group had no material contingent liabilities and no material capital commitment.

Risk Management

The Group adopts stringent risk management policies and monitoring system in particular on the exposure associated with the financial risks as set out below:–

- *Credit risk*

  The Group has established credit policies and procedures in accordance with sound business practices, the requirements and provisions of the relevant ordinances and guidelines. The Management will from time to time review its share margin financing portfolio with focus on lending limits on individual stocks or on an individual customer.

- *Liquidity risk*

  The Group's operating units are subject to various statutory liquidity requirements as prescribed by the authorities. To ensure compliance with the relevant Financial Resources Rules, the Group has put in place a monitoring system to make sure that it maintains adequate liquid capital to fund its business commitments.

- *Price risk*

  The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet as available-for-sale financial assets.

Staff

As at 30th September, 2005, the Group had a total of 47 employees and 87 account executives, 23 of whom were also employed as full time employee of the Group. The Group remunerated employees based on the industry practice and individual's performance.

PROSPECTS

During the period under review, the Group had sought for other investment opportunities to increase the Group's profitability. In light of the steady growth of the local economies and the Group's extensive experience in providing consumer loans, the Group is going to launch the money lending business in early 2006. Looking forward, the Group will continue to look for different investment opportunities in order to diversify the Group's businesses and will remain vigilant to maintain our root structure lean and effective.