

## operations review and preview

We concentrated **our efforts** on  
strengthening **financial services** and  
**expanding** our brokerage business

### Corporate Activity

The year 2000 saw substantial increases in activity at both the corporate level and within our individual operations. To respond to new market opportunities and to address the need for a clearer structure brought about by our rapid growth, in the first quarter, the Group was reorganized into four distinct operations. Financial Services Group (FSG) focuses on corporate finance and brokerage services. CASH on-line (COL) is primarily engaged in the provision and the development of electronic-based personal financial services. Technology Development Group (TDG) invests in and develops technology-related businesses with particular relevance to Asia. Strategic Investments Group (SIG) targets medium-term investment projects to realize profit for shareholders.





The successful listing via introduction to GEM of the Stock Exchange of COL in December 2000 marked the highlight of this reorganization. In early 2001, we made the decision to structure CASH as a cross-sector services conglomerate, based initially around these four entities.

During the year under review, the Group was active in capital restructuring and returning value to shareholders through a variety of corporate activities in the Hong Kong stock markets. In July 2000, an issue of subscribable warrants was met with a good response from investors, allowing us to raise HK\$60 million. The issue of new CASH shares in December 2000, also well received, raised a further HK\$144 million. Simultaneously with the issue of subscribable warrants, CASH made a one-for-ten bonus issue of warrants for shareholders, and before the listing of COL, CASH made a one-for-ten distribution of COL shares to its shareholders.

### Operational Efficiency

FSG and COL have taken every opportunity to use the latest technology to raise operational efficiency through a much strengthened IT infrastructure. The improvements we carried out during the year have resulted in a comprehensive,

reliable, efficient, flexible and secure system for the front and back-end operations of our brokerage business, as well as for the Group's internal control. This is allowing us to provide the best quality service to our clients and to lay the basis for becoming a fully integrated provider of brokerage and financial services.

The improvements during the year covered a large number of important areas. Our ability to implement this complex upgrading process smoothly testifies to the management strengths of FSG and COL and the depth of expertise in its technical teams.

The key elements were:

- BSS. The Group was among the first batch of brokerage houses in Hong Kong approved by the Stock Exchange to roll out BSS, which enables straight through processing of trades with the Stock Exchange, thus increasing speed and accuracy of execution. Developed by the brokerage community, our BSS system will allow the Group to add other features in the future, further enhancing the quality of the services we provide to our clients.



- **Payment gateway.** Introduced in September 2000, our Easy Transfer service allows clients to transfer funds to their CASH accounts via HSBC ATM machines, teller counters, phone banking, and internet banking. Funds are credited for use within 30 minutes, greatly improving the ability of our customers to manage their finances efficiently. We are now working with other major banking groups to expand our coverage.
- **Interactive Voice Response System (“IVRS”).** To offer clients an efficient and convenient voice access for inquiries regarding their transactions and portfolio details, we are currently developing an advanced IVRS to complement our call centre. The system is expected to be in place by the middle of 2001.

## FSG

### Business Review

During the year under review, operating revenue attributable to FSG increased by 81.8% to \$391.1 million over the previous year. Securities brokerage remains the core operation of FSG and reported a 65% increase in brokerage revenue to \$236.3 million. Average daily turnover increased 86% and helped lift our average market share by 84%, securing the Group’s position as one of the leading local brokerage houses. In line with the growth

of our securities dealing activities and relying on the robust risk management systems that are based on our versatile IT infrastructure, FSG has within prudent limits leveraged the Group's strong balance sheet by building up its securities margin lending portfolio. Interest revenue from margin lending rose during the year by 177% to \$42.5 Million.

Revenues from FSG's commodities brokerage operation saw a decline of 38% to \$29.5 Million during the year mainly due to the contraction in Hang Seng Index Futures dealing activities of trading clients after migration of such trading to the Automated Trading System (ATS) in June 2000. However, we have experienced very encouraging results in the Mini-Hang Seng Index Futures that were introduced to the market in October 2000. FSG is also exploring avenues to introduce more commodities products traded in overseas markets to our clients.

To complete the service value chain, FSG has strengthened its corporate finance operation through more active participation in both the primary and secondary markets, as well as in corporate advisory and structured financing transactions. During the year under review, revenue from corporate finance rose significantly by 288% to \$15 million and the unit is expected to report even more promising results in the coming year.

## **Business Development**

Alongside the advance of technology, FSG recognizes the importance of delivering more personalized services and diversified products to CASH customers. Throughout 2000, FSG has worked to increase the level of service personalization, to provide better overall service quality, and to target market segments more effectively in pursuit of higher margin revenues.

To address these issues, FSG during the year has taken a number of initiatives, ranging from the establishment of new business units and support teams to integration of new technologies.

- **Corporate Sales Team.** In December 2000, FSG established a team dedicated specifically to the needs of corporate and high net worth customers who are particularly receptive to higher levels of customized and personalized financial services. These customers are less price-sensitive and their patronage is less affected by the forthcoming deregulation of brokerage commissions. This team specializes in transaction origination and provides proactive wealth management services in accordance with clients' individual investment objectives.

- **Leveraging Research Capability.** We maintain an equities research team comprising experienced investment strategists, professional market researchers and respected analysts. The team is planning to interact more closely with other business units to offer all CASH clients timely market information and valuable commentaries by way of multi-media platforms throughout the trading sessions. We will also consider the viability of exchanging research materials with other renowned portals as another revenue generator for FSG.
- **GEM Main Sponsorship Qualification.** In recognition of our expertise and experience in co-sponsoring and co-managing primary issues, our corporate finance arm Celestial Capital Limited (“Celestial Capital”) was formally granted permission by the Stock Exchange in February 2001 to sponsor GEM listings. This will greatly increase the business scope of our corporate finance operation, which is currently also working towards sponsoring main board listings and expanding its placement and underwriting capabilities through its equity capital markets unit. Celestial Capital aims to become an integrated financial services provider and has, in co-operation with other business units of FSG, pioneered a unique Shareholders Value Enhancement Program. This highly structured corporate finance service aims to provide a one-stop integrated solution to assist small to medium-sized listed and private companies in formulating corporate strategy and maximizing shareholder value through creative growth strategies, effective cost control and capital allocation, as well as successful use of corporate promotions.
- **Reinforcing Service Standard.** To ensure delivery of quality customer services to our brokerage customers at retail counters, we have established a complete set of Service Codes and committed ample resources to provide on-going customer service and product knowledge training for our frontline staff. These initiatives are reinforced by periodic reviews designed to ensure attainment of higher service standard goals.
- **Resources Rationalization.** The financial services market is becoming increasingly competitive and demands ever rising levels of specialization. FSG therefore took the strategic decision to discontinue its foreign exchange and bullion dealing operations in December 2000. As a result, FSG can now make better use of human and capital resources to focus on further



substantiating its core competitive strengths in brokerage and corporate finance. Although of relatively minor significance, foreign exchange and bullion dealings were revenue contributors and FSG will continue to review market conditions to determine whether the likely returns warrant their being re-established in future .

### COL

The year 2000 saw COL fulfil the core promise made to strategic shareholders by listing its shares on GEM of the Stock

Exchange in December 2000, after two years of operations. This is a testament to the Group's successful investment in a strong branding and IT infrastructure.

COL's revenues for the year rose 107% over 1999 to HK\$44 million, reflecting an enlarged customer base and a good response from existing customers to the introduction of new products. Net loss nevertheless widened to HK\$157 million. This was expected and was a consequence of heavy investment in technology, advertising and promotion for its establishment.

During the year, COL made substantial progress in all areas of operations.

### Products and services

During the year, COL focused on developing and broadening its scope of activities from securities, futures and commodities trading services. These will enable customers to hedge their positions in the market.



In addition, COL has worked with FSG to cement alliances with other leading providers of financial services to expand its product offerings beyond the securities markets, and to improve the ease and speed of use of online trading accounts, such as the Easy Transfer payment service.

### **In-Trade**

COL's internet-based securities and commodities trading platform, In-Trade, saw considerable improvement during the year. The number of customer accounts rose by a substantial 330%. This helped contribute to a strong increase in revenues from this part of our operations.

In March 2000, In-Trade was upgraded to a Windows 2000 version. This provides the security of 128 bit encryption as well as higher scalability and improved load-balancing capabilities, to meet increasing trading volume.

Marketing efforts for In-Trade were helped by the success of iGame. This virtual real-time investment game was introduced with the aim of educating people about electronic trading and to allowing them to become familiar with In-Trade. Four rounds of iGame were held, with participation from a number of technology and channel partners, including Compaq, Microsoft, stockhouse.com and MSN.com.

This is part of an innovative marketing strategy developed for In-Trade. In May 2000, we opened two cyber cafés in the prime locations in Causeway Bay and Tsim Sha Tsui to promote COL's electronic financial services. This was followed in October by the launching of CASH Points, a loyalty program for In-Trade customers.

### **SmarTrade**

Our SmarTrade mobile trading platform also saw strong growth. The number of customers rose 280% over the previous year.

In early 2000, SmarTrade was extended to provide trading services in Hong Kong commodities, thus enabling users of SmarTrade to trade both securities and commodities products through their GSM mobile phones. In May 2000, SmarTrade was further extended to PCS mobile phones.

COL is currently working to ensure that our platform and its functionality keep pace with developments in cellular communications.



**Mi-Trade**

In October 2000, COL introduced Mi-Trade, its mobile trading technology, through PDAs. PDA trading services enable end-users to trade securities and commodities on a PDA with a wireless connection. Similar to In-Trade, users of Mi-Trade can use their preferred ISP in connection to the internet for mobile trading activities. The full launch was held in December 2000.

**www.cashon-line.com**

In September 2000, COL officially launched [www.cashon-line.com](http://www.cashon-line.com) ([www.cash.com.hk](http://www.cash.com.hk) has now become the corporate website of the Group), an online financial services site providing trading services, real-time stock quotes, up-to-date market commentary and recommendations on selected global markets and companies listed on the Stock Exchange, as well as linkage to related financial websites providing world financial news. In conjunction with FSG, COL also built a team of experienced financial journalists to provide timely and insightful commentary.

**www.e-finance.com.hk**

The creation of our personal financial website [www.e-finance.com.hk](http://www.e-finance.com.hk) was another step in realizing the vision of COL and the Group of becoming a one-stop-shop services group. [www.e-finance.com.hk](http://www.e-finance.com.hk) offers a full range of interactive financial and investment services that facilitate the understanding, planning and achievement of personal financial goals.

In January 2000, we launched a unique service, e-finder, an online reverse auction engine, on [www.e-finance.com.hk](http://www.e-finance.com.hk). Potential buyers post their desired terms for required financing such as tax loans and mortgages through e-finder. The terms are viewed and evaluated by participating financial institutions which in turn submit their best offer based on the user's profile and requirement. In October 2000, we upgraded the site with a new design and added a brand new lifestyle section. The portal now covers areas such as real-time market information, financial modeling, market commentary, stock portfolio screening, sports and leisure.

### TDG, SIG and Other Activities

Our TDG and SIG divisions continued to build their operations, taking advantage of the Group's strong balance sheet to seek opportunities in a number of promising areas. In addition, developments since the end of the financial year indicate important new additions to the Group's portfolio of businesses.

- **Transtech Services Group Limited** ("Transtech"). This project, to develop the first optical fiber and telecommunications manufacturing facility in Hong Kong to capture the huge growth in demand for high bandwidth communications, continued on schedule. We therefore confidently expect to enter production by the end of 2001. Market response to the progression of our initial phase has been very positive.
- **CASTD.** Our co-operation with this important state-owned institution, which has access to and rights over state-owned high-technology projects continues to strengthen. Although activity slowed down during 2000 as global market sentiment towards the technology sector declined, we expect more activities in 2001.
- **Pricerite.** The Group's acquisition of major Hong Kong retailer Pricerite was announced in February 2001 and was completed before the end of March 2001. Pricerite's performance for the financial year 2000 to 2001 showed a much improved return on equity, which bodes well for the Group. Its extensive retail outlets, broad customer base, and "brick-and-mortar" B2C e-shop will provide ideal opportunities for the Group to widen the spread of our online and personalized financial services.



Aggressively **reinforcing**  
service **standard**, broadening our **product range**,  
aiming to provide **value** added services

#### Business Outlook

Although market conditions may prove difficult in some areas in 2001, our spread of businesses, increased synergies between them and continuing improvements in product offerings and service quality should enable us to consolidate our position as a cross-sector services conglomerate and explore new avenues of growth. At the same time, with a firm view on financial performance, we will maintain our stringent risk management and continue our efforts to ensure cost efficiency.





**FSG**

FSG will continue to pursue the goal of full automation, through which services ranging from fund transfer, order placement and trading will become fully automated. The emphasis on service quality through personalization of technology channels and increased training of people will continue, and help to increase customer loyalty. FSG will explore opportunities in corporate finance, on both the main board and GEM, where it is now licensed to sponsor listings. As China continues to open, FSG will also build relationships with mainland corporations, with a view to expanding its services into the mainland.

**COL**

COL should see a much improved bottom line in 2001, as expenses fall sharply. COL's brand is now firmly established and this will allow COL to reduce substantially spending on advertising and promotion without negative impacts on market share. By expanding the range of products, COL aims to increase revenues from existing customers, while simultaneously developing new accounts from its much-expanded database and cross-selling within the Group. Mi-Trade will review the range of

wireless internet technologies and devices to ensure COL can provide a more comprehensive multiple platform through which to access financial services.

**Pricerite**

The integration of Pricerite as another business in our growing services conglomerate will provide significant cross-selling opportunities to other business segments of the Group and should contribute to profits in the 2001 financial year.

**Other businesses**

We expect production of optical fiber to begin at our Transtech joint venture by the end of 2001. With the investment in this high potential business beginning to see rewards, the TDG division will thus begin to impact Group earnings more positively from 2002 onwards. If market sentiment improves, we also hope for more concrete results from our excellent relations with CASTD, providing opportunities for corporate finance and investment in the mainland China. Both TDG and SIG divisions will continue to use the Group's extensive relationships across Asia to develop technology-related and other businesses, where a fall in asset values has created opportunities.

### General Preview

In view of the unsettled conditions in the leading US market, the global economy is generally expected to slow. The consequences of the bursting of the internet bubble in the second half of year 2000 and the current global financial market conditions lead the Board to forecast that the general investment atmosphere will be cautious and that market turnover for the brokerage and financial sectors for the year 2001 will remain sluggish. Due to the weak investment environment, the development period for investment projects will also be longer.

Locally, the fundamental changes stemming from the forthcoming deregulation of brokerage commissions and keen competition in online broking from the banking sector have triggered cut-throat pricing among local brokerages. Under these circumstances, the Board expects that the Group will see a relative slowdown in the expansion of its brokerage business in the coming year and will strive instead to achieve higher operating margins and minimum operating costs.

To soften the cyclical impact of financial services business, the Group has committed to extend the business of the Group horizontally. Our aim is to become a cross-sector services conglomerate. This will on one hand stabilize our revenue streams, and on the other hand, generate cross-sector selling opportunities that will in the long run generate synergies within the Group.

In summary, the Board maintains a conservative stance towards the Group's likely business performance in 2001 since the newly established businesses have yet to begin to contribute to revenues and investment projects have yet to materialize.