

## BUSINESS REVIEW

### Overview

For the year ended 31 March 2001, total turnover of the Group was approximately HK\$43,235,000, representing a decline of 32.65% as compared to the previous year. Profit before taxation of the Group decreased by 27.04% to approximately HK\$35,971,000 as compared to the same period in 2000. Net profit



attributable to shareholders of the Group for the year under review was approximately HK\$34,116,000, representing a decline of 19.94% as compared to the previous year.

Considering the Hang Seng Index had fallen by almost 26.85% during the year under review, the Group apparently outperformed the market. The fall in commission income was mainly due to shrinking market turnover as a result of poor market sentiment in view of the weak performance of the U.S. markets. During the same year, the Group realized a gain of HK\$23,534,000 on disposal of shares in Hong Kong Exchanges and Clearing Limited (the “HKEC”) in 2000. The net

profit margin for the year was approximately 24.48% excluding the gain on disposal of shares in the HKEC, which is comparable to the net profit margin of 55.79% excluding the gain on disposal of a share in Hong Kong Futures Exchange Limited (the “Futures Exchange”) as recorded in the same period of the previous financial year. Basic earnings per share based on the weighted average number of shares in issue during the respective year and the assumption that the group reorganisation (the “Reorganisation”) had been completed on 1 April 2000 amounted to HK18.1 cents, representing a 33.21% decrease from the previous year.

### Liquidity, Financial Resources and Funding

The cash position of the Group was strengthened after the listing of the Company in September 2000. The Group generally finances its operations with internally generated cash flows. As at 31 March 2001, the Group has cash and cash equivalent of approximately HK\$79,046,000 and finance lease payables of approximately HK\$911,000. The Group has no bank borrowings apart from occasional utilisation of overdraft facilities and a fixed deposit of approximately HK\$2,035,000 pledged to a bank to secure general banking facilities during the year. The interest effect on the proceeds received from the share offer has been insignificant.

## Brokerage Business

The Group's performance in its securities dealing and broking, futures and options dealing and broking businesses remained satisfactory during the year under review despite the sharp corrections in technology related stocks in the second half of 2000 and the subsequent sluggish performance of the market. Turnover for the Group's securities broking business and futures broking business for the year ended 31 March 2001 was approximately HK\$35,948,000 (2000: HK\$64,197,000), representing 83.15% of total turnover. The decrease in turnover was mainly brought about by poor market sentiment, intensified competition in the industry and shrinking market turnover.



## Securities Margin Financing

Karl Thomson Finance Limited, the finance arm of the Group, gained approval from the Securities and Futures Commission (the "SFC") to register as securities margin financier in early November 2000. Prudent risk control measures and a risk-averse lending posture have been maintained throughout the year under review. For the year ended 31 March 2001, turnover from securities margin financing business amounted to approximately HK\$7,287,000, representing 16.85% of the Group's total turnover. During the year under review, the Company has been capable of meeting the liquidity requirements as set out in the Financial Resources Rules by the SFC. As a supplementary service to our traditional brokerage business, the Group is confident that the demand for securities margin financing services will be stable and will become an important source of revenue. Our loan exposure is mainly financed by internal resources. As our utilisation rate of bank borrowings is low, our average cost of funds is well below the prevailing prime lending rate.

## Staff

As at 31 March 2001, the Group had employed 79 staff. The Group attempted to expand its sales workforce so as to increase its retail market share. The Group currently employs 90 staff and adheres to its policy to recruit fit and proper persons to perform duties. The Group offers internal and external training programs for its staff on a continuing basis.

## Use of Proceeds

The Company's shares were successfully listed on the main board of the Stock Exchange on 8 September 2000 under the stock code 7. A total of 52,500,000 new ordinary shares were issued to the public and net proceeds of approximately HK\$63,000,000 were raised. As mentioned in our prospectus, part of the net proceeds from the share offer would be used for the expansion of branch network. The Group is currently in the process of evaluating the feasibility of setting up more new branch offices.