

CHAIRMAN'S STATEMENT

BUSINESS REVIEW

On behalf of the Board of the Company, I hereby announce the unaudited results of the Group for the six months ended 30 September 2001. The first half of 2001 has been a great challenge for the Group. In view of the unstable market performance resulting from the economic slowdown and the September 11 Terrorist Incident, its traditional brokerage business was inevitably affected. As part of its globalization plan, tremendous effort has been continued in business diversification, not only further strengthening its traditional stock and futures brokerage business, but also exploring new horizons for the online financial business.

During the period under review, the Group recorded a turnover of HK\$18,554,000, representing a decrease of 28% as compared to the figure of last corresponding period. Net loss for the period was HK\$5,194,000 compared to the net profit of HK\$35,252,000 in 2000 and loss per share was HK\$0.0115. The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2001.

The decrease in turnover was mainly attributable to the poor market sentiment worldwide arising from the deteriorating US economy. The increased volatility stock market has deterred investors from actively participating in equity investment activities. The fall in profit during the period under review was mainly due to the Group's active exploration of innovative financial products which were still under start-up period, resulting in the upsurge of operating expenses to HK\$12,280,000 which almost doubled that of last corresponding period. The profit was also dragged down by the amortization incurred by the acquisition of LuckySurfAsia.com. Therefore, if excluding the above new and long-term investment expenses, our core business still achieved a profit during the period under review. In face of the unfavourable worldwide market sentiment and economic slowdown, the Group's core business maintained a profit which is attributable to our dedicated staff. The management has planned different strategies to cope with the changing market environment. The Group believes the investment in financial products is necessary for the Group's strategic development in the long run, and establishes a solid foundation for diversification of financial services and profit maximization in the future.

As at 30 September 2001, the Group has cash and bank balances of approximately HK\$96,537,000, which included approximately HK\$30,958,000 of clients' funds that were kept in designated bank trust accounts and approximately HK\$65,579,000 internal cash resources kept in general accounts. As most of the Group's cash reserves were placed in Hong Kong dollars short-term deposits with major banks in Hong Kong with no related hedges, the Group's exposure to fluctuations in exchange rate is minimal. As at 30 September 2001, the Group has no bank liabilities or contingent liabilities apart from a

pledged bank deposit amounted to approximately HK\$2,068,000. As at that date, the Group's shareholders' equity was approximately HK\$259,243,000 (2000: approximately HK\$143,634,000) and the Group's current ratio was 401% (2000: 526%). As at 30 September 2001, the Group employed about 65 full-time staffs and 23 account executives in Hong Kong. The Group remunerates employees based on performance, experience and prevailing industry practices. It also offers benefits such as professional tuition and training arrangements to staff to enhance their product knowledge and sense of loyalty.

The Brokerage Business

Currently, stock and futures brokerage remains the major business of the Group which contributed over 80% of total turnover. During the period under review, the Group recorded a turnover of HK\$15,024,000 for the brokerage business compared to HK\$21,758,000 in the last corresponding period. The decrease in turnover was mainly due to the worldwide detrimental market conditions and fierce competition within the industry. Currently, the Group operates 2 branches located in Kwun Tong and Shatin, servicing more than 5,000 clients.

The Securities Margin Financing Business

The securities margin financing business accounted for nearly 18% of the Group's turnover. For the six months ended 30 September 2001, the Group recorded a turnover of HK\$3,423,000 for this business segment compared to HK\$3,915,000 recorded in the last interim period. Adopting a prudent policy in risk management, the Group managed to maintain the liquidity level far above the official requirements as set by the Securities and Futures Commission ("SFC"). With strong financial back up, its funding requirements for margin financing loan were fully derived from internal resources.

Partnerships for Online Development

On top of the traditional brokerage business, the Group has been proactive in diversifying its financial business with the ultimate goal to globalize its financial service coverage. Foreseeing online services as an international development trend, the Group continued to focus its growth into two major areas namely, i) online financial products, ii) e-marketing and internet security business. The Group has carried out these expansion moves by introducing successful business models with a proven track record from overseas via acquisition, partnership or joint venture with reputable corporations.

LuckySurfAsia.com

In May, the Group acquired 57.1% of LuckySurfAsia.com through the acquisition of the entire issued share capital of LuckySurf International Limited by issuing 20,000,000 new ordinary shares of HK\$0.10 each of the Company. This platform was built on the successful proven model of LuckySurf.com which was able to breakeven within the first year and is one of the profitable websites in the US. It provides an efficient advertising channel for advertisers who are launching promotions to specific target audiences. Since acquisition, the Company has reported growth of 75% of new registered players and is expected to grow at this robust pace in the coming year. The Company has also successfully attracted more than 45 reputable online and offline advertisers and sponsors during this period. Major advertisers include Fairwood Restaurant, Random Logic, William Hills, Pearl Shop, PrimeCredit Limited and Vigour Entertainment among others.

Localizing the platform to meet different market needs, the Group has spun off this platform into LuckySurfHK.com and LuckySurfTW.com in addition to the existing one. The former was designated to serve audiences in Hong Kong and Macau while the latter was tailor-made for Taiwanese audiences. This online advertising platform enables the Group to build a significant database from its growing reservoir of participating players which can generate synergistic effect to market its financial services in Asia.

KTG Trade Ltd — A Joint Venture with GL Trade

The Group's second move was to extend our financial services into the web-based arena. On 29 June 2001, the Group entered into an agreement for the formation of a joint venture - KTG Trade Limited ("KTG Trade") with GL Trade SA ("GL Trade") of France aiming at the development and marketing of an online securities trading system in Asia. With solid experience in developing trading system in over 50 countries, GL Trade is also one of the partners of Hong Kong Exchanges and Clearing Limited in the development of connecting the Hong Kong Futures Automated Trading System to the rest of the world. Leveraging GL Trade's extensive network, the new platform can be connected to GL Global Net to cover over 50 overseas markets. Asian customers can directly access to international stock exchanges via the platform while it also provides accessibility for European customers to Asian stock exchanges.

KTG Trade is currently proceeding to register as a securities dealer. The system has already satisfied the relevant connectivity, functionality and stress tests in accordance with the official standards of SEHK. Currently, the system is undergoing an internal pilot run with gradual enlargement of testing points, aiming to perfect it as a stable, user-friendly and customer-oriented platform. The full-scale service will be launched in early 2002. Our marketing expertise has proven invaluable in introducing this state-of-the-art trading system to our customers.

Cooperation with CMC for Marketing CFD

Following the two successful models from the US and France, the Group further expanded its financial business by cooperating with CMC Group Plc. ("CMC") of the United Kingdom for online Contract For Difference ("CFD") trading. CMC is one of the first online trading companies which launched its real time foreign exchange internet services in 1996. Since then CMC has established itself as one of the leading internet trading companies in the world handling around 100,000 foreign exchange and CFD orders each month.

Pursuant to the agreement, the Group obtained the exclusive right from CMC to promote and market CFD trading in the Greater China Region covering Hong Kong, Macau, Taiwan and the PRC. The Group will offer CFD Internet trading services on indices and stocks to customers in over 60 countries on a 24-hour basis. As online CFD is an innovative product to the Hong Kong market, the Group has sought satisfactory legal opinions for such CFD online trading and has put forth an application to the SFC for approval. Full services will be introduced once official approval has been granted.

Latest Development — AudioSmartCard

By the end of November 2001, the Group has concluded another exclusive cooperation agreement with AudioSmartCard SA, a French specialist of Audio Signature to expand its business into Internet security business by promoting its new generation ID card - @CARD into the Greater China Region. The introduction of this security card would greatly complement and facilitate its online business development as a whole by enhancing the security and confidence of online applications. AudioSmartCard develops systems and applications of authentication, based on a card emitting a coded sound frequency identifying its user. The @CARD offers a new secured solution of the Internet and phone services with several unique benefits of having high security for all transactions where the sound sequence emitted by the @CARD is never the same and a pincode prevents any fraudulent use, of wide application with one card for all uses on any Internet and phone services, and of easiness to use with just one click on the button of the card.