

Management Discussion and Analysis

OPERATION REVIEW

Securities broking, trading and investment

The resumed investors' confidence brought back vibrant market activities and turnover velocity. The average stock market daily turnover dramatically leaped from HK\$6.5 billion in 2002 to HK\$10.3 billion in 2003. Our income from securities and commodities broking increased by 40% to HK\$62.4 million from the year 2002 to 2003. The result from broking operation recovered from its worst difficult market condition especially in the last quarter of 2003, yet it still reports a loss of HK\$11.9 million for the year of 2003. Although the figure was not satisfactory, it was a substantial positive change in comparing to its loss result of HK\$61.3 million in 2002.

Online securities broking made substantial growth in income in 2003, being 223% as compared with 2002. Both the trading volume and the number of clients for online securities trading continued to expand, in particular with the growth in the number of new listings during the last quarter of the past year. On the cost end, we consolidated some of the local branches to rationalise a more cost effective conventional broking operation in the first half of the year emanating from the onset of SARS. By the end of the last financial year, we have three retail branches together with the head office in Central.

During the past year, part of the non-trading securities was sold and had realised a gain of HK\$4.1 million. Previous provisions and impairments in the value of trading securities and non-trading securities recorded write-back of HK\$33.3 million and HK\$1.8 million respectively on revaluation to the closing prices at the end of the last year. The Group has trading securities of HK\$59.8 million and non-trading securities of HK\$3.2 million in value as at 31 December 2003.

Margin financing and money lending

Margin finance business recovered satisfactorily in the second half of the year with some of the initial public offers (IPOs) being well received by the market. Personal loan business, on the other hand, suffered substantially by the deteriorated unemployment rate and personal bankruptcy petitions in the year 2003. Although the Hong Kong's economy staged a rapid rebound in the second half of the year, individuals could not be benefited so immediately. Further, delinquent accounts of previous lending made to the overseas domestic helpers accelerated in face of sluggish domestic conditions during the past year. Inevitably, we made a total provisions for bad and doubtful debts of HK\$14.5 million for 2003. We consolidated and closed some local branches engaging in personal lending during the last year under the prevailing market situation, and remained four branches with larger customer base. The related staff administration and operating costs reduced accordingly.

The overall interest income from our loan portfolio for margin financing and personal loan declined by 28% to HK\$37.9 million. As at 31 December 2003, our loan and advances portfolio for margin financing and personal loan contracted by 17% to HK\$192.7 million. We will remain prudent in granting loans and setting limits, and will continue to exercise tight credit control to ensure the quality of our loan portfolio.

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Corporate advisory and underwriting

With expansion in 2003, our corporate finance division was successful in securing an increasing number of deals in corporate advisory services, rights issues and placements of shares as well as IPO sponsorship and underwriting on both the Main and GEM boards. However, some of the deals arranged in the first half of the year were deferred to the second half of last year and even early 2004 because of the sudden outbreak of the deadly disease in March that severely hindered investors' sentiment. For the year 2003, the division had revenue income rose by 8% to HK\$14.6 million.

According to the Hong Kong Exchange, a total of 73 companies were listed including 20 Mainland enterprises in 2003. The newly listed Mainland enterprises raised total funds of HK\$50.4 billion which represented 85% of the total funds raised by IPOs in 2003. We are getting more active flow of PRC-related business in respect of Main Board IPO and corporate advisory assignments. Some of the assignments are still ongoing by the end of last year.

Property investment and others

The investment property at Lippo Centre was fully leased out by September 2003 and brought about higher yield of return and profit. The property has been providing steady cash income to the Group. In addition, we recorded a surplus on revaluation of the property for HK\$6 million due to the recovery of the local property market at the end of last year.

MANAGEMENT OF RISK

The credit committee respectively for broking business and personal loan operation holds regular meetings to monitor risks, review and approve credit policies and control guidelines. Due to continuous high bankruptcy rates, personal loans granted are subject to more stringent and credit assessment and is more prudent.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has obtained facilities which are renewable on a yearly basis from a number of banks. The facilities for the share margin finance operations are secured by the securities of margin clients and the Group. The facilities for the money lending operations are clean loans. All the facilities are guaranteed by the Company.

As at 31 December 2003, the Group's total bank borrowings apart from those for share margin finance business and personal loan business amounted to HK\$21 million (2002: HK\$20 million), which, when related to the Group's shareholders' fund, are equivalent to a gearing ratio of approximately 8.6% (2002: 9.4%).

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EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

As at 31 December 2003, the Group had no significant exposure to fluctuations in exchange rates and any related hedges.

CAPITAL STRUCTURE

The Group had no other debt securities or capital instruments as at 31 December 2003 and up to the date of this report.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATES

The Group had no material acquisitions and disposals of subsidiaries and associates for the year ended 31 December 2003.

CHARGES ON ASSETS

As at 31 December 2003, the Group's investment property was mortgaged to a bank for installment and revolving loan facilities.

INVESTMENTS

For the year ended 31 December 2003, the Group's portfolio of Hong Kong listed securities increased due to rise of market prices lead to increase in value on the balance of investment portfolio and realization of certain investment portfolio during the year resulted in profits sustained.

As at 31 December 2003, the Group did not have any significant investment plans or significant investment held.

CONTINGENT LIABILITIES

Details of the contingent liabilities of the Company and the Group at balance sheet date are set out in note 31 to the financial statements.

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EMPLOYEES

As at 31 December 2003, the total number of employees of the Group was approximately 196 (31 December 2002: approximately 260). Employees' cost (including directors' emoluments) amounted to approximately HK\$47 million for the year (2002: HK\$66 million).

The Group considers its employees as its most valuable asset. Apart from salary payment, other staff benefits include medical subsidies, life insurance, provident fund and subsidized external training. Continuous Professional Training will continue to be arranged for those staff registered with the Securities and Futures Commission. Performance of the employees is normally reviewed on an annual basis with adjustment compatible to the market. Individual employee may also receive a discretionary bonus at the end of each year based on performance. The Company adopted an employee share option scheme on 18 June 2002.

PROSPECTS

Brokerage and Financial Services

Hong Kong economy has bottomed out with a V-shaped rebound, and businesses have revived with continuous improvement in both consumer and investor sentiment. In order to ride on the recovery of the securities industry and capitalize the growth in retails business with fierce competition from securities brokers and banks offering securities broking and related services, the Group will continue to strengthen the account executives teams and carefully consider the expansion of our branch network in forthcoming period. As the first step in strengthen our branch network, we have re-opened the branch in Kwun Tong in March 2004.

The online trading platform has enabled us to expand our customer base especially outside the territory and there is significant cost efficient and effective justification for more extensive use of the existing platform. We will add trading of futures contracts to the existing platform in coming months. The Group will continue to strengthen and diversify our product base such as bullion, futures and forex, and develop and explore new products such as equity linked instruments and other financial planning services in order to expand the income base. With more enterprises from the Mainland interested to have listing in Hong Kong, the Group will expand the corporate finance team to seize lucrative business opportunities from the Mainland.

Personal Loan

We will continue to exert strict control over costs and closely monitor the delinquency ratio so as to maintain the profit margin and further reduction in bad debts.

Chan Hing Wah

Managing Director