
時富投資集團
CASH
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Management Discussion and Analysis

INDUSTRY AND ECONOMIC REVIEW

In 2005, despite a global economic growth against a backdrop of high oil prices and rising interest rates, the Hong Kong stock market was lacklustre, with the Hang Seng Index traded in its narrowest range of 16.4% since 1978.

On the other hand, the domestic economy exhibited a year of resilient growth amid external challenges. Macro-tightening in Mainland China, rising oil prices, and successive interest rate hikes in the US seemed to have little impact on the Hong Kong economy. The employment market continued to improve and GDP is expected to have grown 7.3% in 2005. Inflation remained benign despite record prices of crude oil and commodities. The property market appeared to hold strength on the back of rising mortgage rates. The opening of Disneyland Hong Kong marked another milestone for Hong Kong to consolidate its position to be a tourist centre. While the growth of tourists from Mainland China fell short of expectations, inbound tourism remained robust.

However, the situation for the furniture and household markets was not so encouraging, with the sector recording negative growth of 0.5% for total retail sales in 2005. The Composite Consumer Price Index (Composite CPI) for durable goods also faltered in 2005 – recording a year-on-year 2.4% fall in December – despite a general Composite CPI increase of 1.1% for 2005 as a whole.

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Business Review – Financial Services Business

Throughout 2005, CFSG remained on course on the strategy of product and revenue diversification, both with a view to better service our clients as well as to minimise the impact on business performance by market cycles.

During the first half of the year when the domestic market was pedestrian, we focused our resources to upgrade the operating and trading systems to prepare for market upturn and future expansion.

We also launched our asset management service in June to capture opportunities inherent in the high-net-worth market, and to complement our strategy of providing a full suite of services to our clients. This newly added service has allowed us to continue to expand our customer base and to further leverage on the cross-selling synergy within the financial service group.

While we continue to grow our income from the relatively mature brokerage business, we concurrently look for new opportunities in business sectors with high-growth potential. In September, we announced our plan to enter the online game industry by acquiring Netfield Group. This new strategic acquisition will allow us to enhance shareholders' value by participating in the high-growth online business in China.

In 2005, we implemented a series of system enhancements of the online trading platform. The new platform will not only enable us to better serve our existing self-served, technology-savvy clients, but also place us in an advantageous position to compete in the premium mass-market segment.

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Our core brokerage business continued to show steady and healthy growth during the year. The division grew its sales team by double-digit as part of the expansion strategy. The new strategic direction is to focus on the high turnover business as a way to compensate for the impact of reduced commission on the industry.

The wealth management business continued to report strong growth in both headcount and revenue during the year. Taking advantage of RMB revaluation pressure and high growth potential in China's property market, the division introduced a property investment vehicle to clients as part of the product enrichment and diversification initiatives. The new investment tool was well received by clients and has also attracted attention of prospective investors.

In investment banking, we continued to take steps to ensure that we are competitively positioned to provide medium-sized corporate clients with a full scope of financial advisory services. During the year, the investment banking division was very active in broadening and deepening client relationships and has recently entered into agreements with a few PRC corporations to sponsor their listings in 2006.

In an effort to raise our international recognition, CFSG brought in a new strategic investor, AvW Invest AG, an Austrian company listed in Vienna. The new alliance will assist us in making inroads into the European market and exploring cross-selling opportunities in Asia and Europe. Together with the Saudi Arabian investment partner ARTAR Group, this new alliance has broadened our shareholding base that now extends from Asia and Middle East to Europe.

Outlook for the Financial Services Business

Looking ahead into 2006, CFSG's focus is to increase turnover, increase market share, and expand client base through repositioning the brokerage strategy, enhancing online platform capability, strengthening cross-selling synergies within the financial services group, and expanding product offerings. With our commitment to excellence, dedication to servicing clients, and determination to create customer and shareholder value, we are confident that we will become the financial services house of choice for our clients through value-added services and enhanced client experience.

Business Review – Retail Business

With the economy gradually recovering, consumption spending appeared strongest among the younger generation. With this in mind, the retail group repositioned our PSL, developed 3C Digital and created LifeZtore over the year to target the trendier and higher-spending younger generation of consumers.

In 2005, the retail group was also renamed CASH Retail Management Group (CRMG) to fully reflect our current business and future development as a leading retail services and management group.

Pricerite Stores (PSL) – Repositioned for Future Growth

During the year, PSL was further repositioned to become a "neat and clean" specialist as we continued to strengthen provision in the "neat and clean" product categories. In line with this move, PSL launched a "neat and clean" promotional campaign, including a series of advertisements and new brand spokespeople. Our stores also underwent layout and design renovations to reflect the new positioning. The redesign brought the added benefit of improved sales per square foot, increasing the efficiency of store usage.

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Provision of electrical appliances was also enhanced. A year-on-year double-digit growth in sales saw PSL become one of the market leaders in this category, with one solely distributed 32″ LCD TV named the bestseller in an independent survey at the end of 2005. We will continue to consolidate our leadership position in this area and to form strategic alliances with key suppliers, such as Haier, the world's second-largest supplier of electrical appliances in terms of turnover.

Meanwhile, a review of profit and costing structures and rationalisation of our network saw the closure of stores that did not meet internal key performance indicators (KPIs). By the end of the year under review, all of the 30 stores were contributing positively to the retail group.

In relation to supply chain management, we boosted efficiency through infrastructure changes to PSL's household and furniture sections following an operations and systems review. We also produced an operations manual for management and staff.

PSL is now in a good position to look at growth and expansion. We will continue to leverage on our strong supply chain network to develop more private-label products. We will also focus on expanding the depth of our "neat and clean" products in order to become the "neat and clean" specialist of first choice. In the coming year, we plan to strengthen the PSL network to further penetrate the market and boost PSL's presence in new residential areas. In this regard, high rental costs remain our prime concern and the major constraint on network development.

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3C Digital – Capitalising on the Digital Boom

The year under review saw strong demand for 3C Digital's trendy digital products, with a 6.9% year-on-year growth for electrical goods and photographic equipment, as shown in the HKSAR Government's total retail sales figures for 2005.

3C Digital focuses on innovative products and personalised services, which cater for the needs of our consumers. We also extended the depth of our core product offerings, such as notebook computers and mobile phones, in response to a continuous increase in demand. We will continue to provide popular products by forming strategic alliances with key suppliers who hold dominant market positions.

In line with our aim to reach the younger generation, 3C Digital's location strategy focused on high-traffic malls in key shopping areas, such as Times Square in Causeway Bay, apm in Kwun Tong, and New Town Plaza in Shatin. In addition, we launched an aggressive marketing campaign to build a unique brand image by using a young pop star as our brand spokesperson to appeal to our target customers.

In our first year of business, 3C Digital has become a major player in the sector and a market leader in certain categories, such as flat panel LCD TVs. This encouraging market response thus lays a good foundation for further expansion of the 3C Digital network.

LifeZtore – Born To Be a New Force

Economic restructuring is moving Hong Kong up the value chain, creating more high-salaried jobs, according to the HKSAR Government research. This shows the total number of full-time employees with a monthly income of HK$15,000 or above rose from 470,000 in 1995 to 790,000 in 2005, or from 21% to nearly one-third of the total number of full-time employees in Hong Kong.

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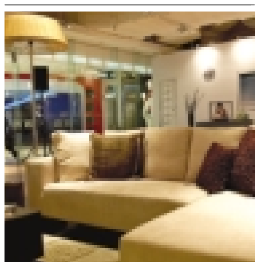
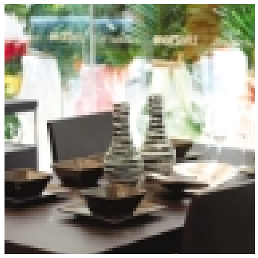
Moreover, as the burden of negative equity eases and employment prospects stabilise in Hong Kong, the middle class has regained its willingness and ability to spend. Most are also showing that spending on improvements in their living conditions, including their home environment and lifestyle, is a priority.



This change in the economic outlook was the main driver behind the launch of LifeZtore at the end of 2005, with three stores opening in Hong Kong.



LifeZtore is a contemporary lifestyle concept retailer that provides authentic design items at affordable prices and an inspiring shopping environment for people with a passion for quality. Leveraging on the retail group's well-developed operating platform (human resources, administration, information technology, logistics and other back office support), LifeZtore focuses on contemporary furniture and houseware, created by an international design team and backed by merchandising expertise.

Building Strength in Mainland China

We have been testing the Mainland mass market by opening pilot PSL shops in the Guangdong area but have now opted out of this operational route as the pattern of mass-market consumption in the Mainland differs from the current PSL business model. We are now consolidating our experience and re-modelling our Mainland business plan. As the Mainland gradually migrates from an export-driven economy to a consumption-driven economy, we believe there is great potential in its consumer market.

During the year under review, the retail group acquired the Oriental Kenzo Department Store in Beijing to kick start retail operations in northern China. This acquisition also brings a full retail business licence, which allows chain store operations throughout the PRC.

The year also saw our Shenzhen support centre become fully operational, providing efficient back-office functions for the retail group, with operating costs reduced and operating efficiency increased. The support centre has also improved our sourcing capabilities in the Mainland, which has further enhanced the efficiency of our supply chain management system.

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The Winning Team

People are central to the Group, be they customers, employees, suppliers, or shareholders.

The Group's mission states "our customers' interests always come first" and we give top priority to customer satisfaction. As our employees are the most important bridge to our customers, we therefore place great emphasis on improving our employees' approach to customer service, leadership and management skills; building internal cohesion; and cultivating a strong culture of professional sales and quality service.

During 2005, intensive customer service training and team building exercises were carried out, together with a restructuring of our senior management team.

The success of our approach to customer service and satisfaction was further recognised when two PSL staff members received Outstanding Young Salesperson Awards from the Hong Kong Management Association. A PSL staff member also gained the Service and Courtesy Award from the Hong Kong Retail Management Association during 2005.

We will continue to enhance our service standards and quality of employees through staff training and service culture development.

Outlook for the retail business

Looking ahead, we are cautiously optimistic about the retail industry in Hong Kong. The gradual economic recovery has presented opportunities for us to build on our solid foundation, well-built infrastructure and cohesive staff team. Nonetheless, the high price of rent, labour, utilities and other operating costs in Hong Kong continues to make the operating environment a challenging one. We are confident that through our single operating platform, a blend of improved operating efficiencies, better use of technology and human resources, we shall move forward with increased momentum.

As such, in February 2006, it was proposed that our retail group focuses resources and well-established infrastructure on developing our retail business in the Mainland, while we, take up its Hong Kong retail business so as to better delineate resources for parallel growth and development.