

Discussion and Analysis of Annual Results

After experiencing a slight recovery in 2000, the local economy deteriorated in 2001 with underlying weakness revealed, reflected in falling property and consumer prices and high unemployment rate. While the slowdown accelerated in the third quarter, the repercussions of the terrorist attack of 11th September drove down the global economic activities even further. Against this difficult environment, the Group recorded a net loss attributable to shareholders for the year of HK\$32.1 million, increasing 32 per cent. from last year's HK\$24.3 million.

RESULTS FOR THE YEAR

The Group's total turnover amounted to HK\$74.2 million (2000 – HK\$91.1 million), representing a decrease of 19 per cent. Mortgage finance and treasury investments (which includes securities investment and other treasury activities) remained principal businesses of the Group. Due to the disposal of a significant portion of its mortgage loan assets in a total amount of HK\$945 million (net of provisions) in the second half of 2000 (the "Disposal", details of which had been disclosed in the Company's circular to its shareholders dated 15th June, 2000), the continued sluggish loan demand throughout the year and the intense competition in the mortgage loan sector, turnover generated from mortgage finance dropped significantly.

The Disposal generated proceeds to repay all its outstanding bank loan and hence no finance costs (2000 – HK\$39.6 million) were incurred during the year. However, with poor market sentiment in the stock markets, the Group incurred an unrealised holding loss on other investments in securities of HK\$37.5 million (2000 – HK\$11.1 million). When excluding the unrealised holding loss, the Group achieved an operating profit of HK\$4.3 million (2000 – HK\$28.5 million, after excluding the aforesaid unrealised holding loss and the loss on the Disposal).

TOTAL ASSETS

Total assets as at 31st December, 2001 amounted to HK\$225.8 million (2000 – HK\$304.2 million). Assets held by the Group were mostly denominated in Hong Kong dollars. Only a small portion was denominated in United States dollars and Japanese yen and the exposure to exchange rate risk is minimal.

As at year end, the Group still maintained a very strong liquidity position with held-to-maturity securities and other investments in securities amounted to HK\$63.1 million (2000 – HK\$17.8 million) and total cash and bank balances amounted to HK\$140 million (2000 – HK\$218 million). During the year, the Group continued to operate its mortgage business and utilized the funds, which were not required to support the mortgage business, in treasury investment activities. The Group also utilized the funds to pay the final and special dividends totalling HK\$45 million in May 2001.

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CAPITAL STRUCTURE

Currently, the Group is totally debt-free and has a very strong liquidity position. Apart from a HK\$1.4 million operating lease commitment, the Group had no material commitment outstanding as at 31st December, 2001.

At the balance sheet date, the net asset value of the Group amounted to HK\$222.4 million (2000 – HK\$299.5 million, restated to add back the then proposed dividends of HK\$45 million as the Group's reserves) and the net asset value per share stood at HK\$0.99 (2000 – HK\$1.33, restated to include the then proposed dividends of 20 cents per share).

CHANGES IN ACCOUNTING POLICIES

Following the adoption of the new/revised accounting standards issued by the Hong Kong Society of Accountants, certain accounting policies of the Group were changed with details as set out in Note 2 to the financial statements. There were no material impact on the profit and loss account nor the balance sheet of the Group except the restatement of the Group's reserves at the balance sheet date to include any dividends for the year proposed or declared after the balance sheet date.

STAFF AND REMUNERATION

The Group employed 13 employees as at 31st December, 2001. Total staff costs incurred during the year dropped significantly by 78 per cent. to HK\$1.2 million (2000 – HK\$5.7 million). The Group offers competitive remuneration packages to its employees where no share option scheme for employees was implemented.

OUTLOOK

Recent evidence increasingly supports the view that the recovery of the US economy is underway and this should lead to an upturn in the global economy. Given the Group's strong liquidity, it will continue to take a cautious approach in seeking investment opportunities with attractive long-term returns.