

Management Discussion and Analysis

OPERATION REVIEW

Broking

Due to low turnover, commission income from securities and commodities broking greatly reduced. Primary market only picked up in the later part of 2001. Interest income from share margin financing and bank deposits also dropped. Trading activities after write back of provision produced a gain. Corporate advisory income increased due to additional advisory assignments undertaken.

During the year, the Group offered incentive commission to online clients through SCtrade.com Limited. Turnover from internet trading steadily increased. At the end of 2001, approximately 10% of the average daily turnover of the Group came from internet trading. A new trading engine is being developed to replace the existing trading application with a long-term view to form the platform for establishing e-commerce.

The Group had reviewed the branch operations and consolidated two less performing ones. At the end of the year, the total branches for securities operations were 12.

Personal Loan

Interest income from personal loan business increased due to the four times increase of the loan portfolio. The scope of clients expanded from local individuals to include overseas domestic helpers. The number of branch increased from five to ten. The operation has already reached break-even point and started to make contribution to the Group. Phase 1 of the Loan Management System has been implemented in 2001 to replace the old system for the basic operations. Phase 2 on accounting interface was also implemented in the first half of 2002.

Management of Risk

Credit Committees respectively for broking business and personal loan operation have been set up to review and approve credit policies. Credit limits to individual clients as well as acceptable percentage of the margin securities have been defined based on approved guidelines. Due to the increase in bankruptcy cases, personal loans granted are subject to more stringent credit assessments.

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 2001, the Group's total bank borrowing apart from those for share margin finance business and personal loan business amounted to HK\$24.6 million (2000 : HK\$25.8 million), which related to the Group's shareholders' fund, are equivalent to a gearing ratio of approximately 6.8% (2000 : 6.2%).

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EXPOSURE TO FLUCTUATION IN EXCHANGE RATES AND RELATED HEDGES

As at 31 December 2001, the Group had no exposure to fluctuation in exchange rates and any related hedges.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

The Group had no material acquisitions and disposal of subsidiaries and associated companies during the year ended 31 December 2001.

CHARGES ON GROUP ASSETS

As at 31 December 2001, the Group's leasehold land and building was mortgaged to a bank for installment and revolving loan facilities.

INVESTMENTS

During the year, the Group's portfolio of Hong Kong listed securities decreased due to realization of certain investment portfolio. Due to the market price increase, the balance of investment portfolio has an increase in value.

CONTINGENT LIABILITIES

Details of the contingent liabilities of the Company and the Group at balance sheet date are set out in note 30 to the financial statement.

STAFF

The total number of staff as at 31 December 2001 was approximately 300.

Remuneration packages are normally reviewed by senior management annually with increments compatible to the market. Special increments may be granted when warranted. Apart from salary payment, other staff benefits include medical subsidies, life insurance, provident fund and subsidized external training. Continuous Professional Training has been arranged for those staff registered with the Securities and Futures Commission.

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PROSPECTS

Broking

Although the abolition of the minimum commission has been deferred for one year to April 2003, the Group is already prepared to offset the impact of any price competition by offering to clients new products including bullion, global futures and US securities. The Group will ensure technical and logistical support to enhance online trading and the expected extension of trading hours. Sales and investment trainee programmes will continue to be developed for maintaining a pool of front office resources to provide quality client services.

Experienced and senior executives have been employed to strengthen the corporate finance team. It is expected that there will be a recovery of the stock market and that more PRC companies will be listed or acquire interests in Hong Kong companies and that the volume of business in the professional advisory services will increase. South China Capital Limited will be an active player in the corporate finance business.

Personal Loan

With increasing support from the banks, South China Financial Credits Limited will continue to expand the personal loan portfolio. Other business products and diversification opportunities will also be explored. Various fund raising options will be considered. We are also contemplating the opportunity to list the personal loan business at the appropriate time.

With the recovery of the worldwide economy, all sectors of the Group's business should benefit as we seize the opportunities and face the challenges ahead.

Shing Shin Cheung, Stewart

Chief Executive Officer