

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATION AND RESULTS

In 2001, the Group recorded a consolidated value of transaction of HK\$5,483 million (2000: HK\$13,666 million) representing a decrease of 60%. Loss before taxation was HK\$53,645 million compared to HK\$102,109 million in 2000. The net loss per share was HK cents 15.14 for the year compared to HK cents 28.93 in 2000.

The consolidated turnover of the Group for the year was down at HK\$57,173,508, compared to HK\$89,922,287 in the previous year.

After extraordinary items the Group reported a loss of HK\$56,490,153 as compared to a loss of HK\$102,129,386 after extraordinary items in the previous year.

The net loss can be attributed primarily due to the significant decline in the brokerage revenue and the increase in the amount of cost of the sale of Phase Five of Wanhua Garden Project.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has principally financed itself from funds on operations and banking facilities provided by its principal bankers. Such banking facilities are secured by listed securities.

As at 31 December 2001, the total shareholders's equity of the Group was HK\$3.8 million compared to HK\$59.7 million in 2000.

The Group's short term bank loans and overdrafts are primarily obtained from domestic banks. In 2001, the Group repaid short term bank loans of HK\$606,036 .

CAPITAL STRUCTURE

During the year 2001, no movement of share capital was noted. The Company will increase its authorized share capital from HK\$90 million to HK\$400 million by the creation of 1,550 million additional shares at HK\$0.20 each for future capital injection from mainly the new investor, China United Telecom Limited, and Mr. Evans C Lowe.

The total cash proceeds of HK\$30 million received from the new investor will be used for the repayment of those unsecured loans and the provision of the necessary working capital to achieve the Group's goals.

EMPLOYEES

As at 31 December 2001, the Group employed 58 staff including 32 registered staff. Remuneration is reviewed annually and a discretionary bonus is declared on the performance of the staff. Also, a new share option scheme will be adopted by the Group to the directors and employees.

GEARING RATIO

In 2001, the Group's gearing ratio was 989% as compared with 125% in 2000. The increase in the gearing ratio was due to the significant decrease in the revenue earned which had dampen impact on the shareholders' equity. The gearing ratio is calculated by dividing the total of bank borrowing, finance lease and hire purchase by shareholders' equity.

MANAGEMENT DISCUSSION AND ANALYSIS

EXPOSURES TO FLUCTUATIONS IN EXCHANGE RATES AND MARKET PRICES

The Group is exposed to foreign currency risk as a result of its foreign currency denominated clients' segregated funds by its subsidiary, to a limited extent, cash and cash equivalents denominated in foreign currencies. The Group had no foreign currency hedging activity in 2001.

The Group is exposed to market risk of the securities shares as a result of its stock borrowing arrangement made with a third party during the year. The Group has utilized the shares which are pledged to banks to obtain banking facilities.

CONTINGENT LIABILITIES

As at the balance sheet date, the Company has given guarantees to banks in respect of banking facilities granted by the banks to subsidiaries to the extent of HK\$80,000,000 (2000: HK\$20,000,000).

During the year, one of the Group's subsidiary entered into an agreement with Seastar Properties Limited. The agreement stated that if the subsidiary fails to complete the real estate projects or sells its interest in the real estate project, the subsidiary has to pay liquidated damages of HK\$6 million (2000: HK\$Nil) to Seastar Properties Limited.

BANK LOANS AND OVERDRAFTS AND CHARGE ON GROUP'S ASSETS

As at 31st December 2001, the Group's bank loans and overdrafts amounted to HK\$37,545,340 (2000: HK\$73,135,156), are secured by:

Clients' securities with a total market value of approximately HK\$31,308,223 (2000: Clients and the Group's securities of HK\$162,797,661) were pledged to banks to secure loans and overdraft facilities granted to the Group.

The Group's leasehold properties have been pledged in favour of a bank to secure a loan granted to the Group to the extent of HK\$5,000,000 and interest (2000: HK\$5,000,000 and interest).

Certain portion of the property held for development has been mortgaged to a bank in The People's Republic of China for loans granted to a subsidiary in the amount of HK\$28,380,000 (2000: HK\$12,605,042).

OTHER MATTERS

Looking forward to Year 2002, the directors believe that it will be another difficult year for the Group. They foresee that the cash flow from operation cannot generate sufficient working capital purposes and to meet the repayments of loans and other liabilities as they fall due.

MANAGEMENT DISCUSSION AND ANALYSIS

Thus, the Group has invited a strategic investor, China United Telecom Limited, who share the Group's view in its expansion plans. China United Telecom Limited, will not only strengthen the profile of the Group, but also provide the necessary capital to achieve that goal. On 20th April 2002, the Group had entered into a loan agreement with China United Telecom Limited of total HK\$20 million being lent to the Group. It is intended that the loan will be repaid from the proceeds of the subscription with China United Telecom Limited who will hold about 50.5% of the enlarged issue share capital of the Company in future. All these arrangements are subject to certain limitations set forth in the annual report.

The Group firmly believes that these arrangements would enable the Group to continue as a going concern and meets its working capital and financing requirements for the foreseeable time. And the new investor would be able to add value to the shareholders as well as the Group's reputation and business as a prominent local investment house.