

Discussion and Analysis of Annual Results

2002 remained a difficult year with record high unemployment rate, persistently decline in property prices, sluggish stock market and dampened private consumption. It was the consecutive fourth year of deflation in Hong Kong. Against this difficult environment, the Group recorded a net loss attributable to shareholders for the year of HK\$16.3 million, a reduction of 49 per cent. from last year's loss of HK\$32.1 million.

RESULTS FOR THE YEAR

The Group's total turnover amounted to HK\$90.5 million (2001 — HK\$74.2 million), representing an increase of 22 per cent. Mortgage finance and treasury investments (which includes securities investment and other treasury activities) remained principal businesses of the Group.

Due to persistently weak demand for loans, total loan portfolio reduced. Together with the decline in market rates, turnover generated from mortgage finance dropped during the year. With further decline in property prices and soaring personal bankruptcies, the Group has been devotedly monitoring the quality of its loan portfolio, keeping bad debt level to a minimal and weighted average loan-to-security ratio to 40 per cent.

During the year, interest income from treasury investments decreased because of the significant drop in interest rates on deposits, the effect of which was mitigated by the Group's switching funds into higher-yield corporate papers. However, as a result of the volatile stock market and under-performance of the Group's investment funds, an unrealised holding loss on other investments in securities of HK\$17.3 million (2001 — HK\$37.5 million) was incurred.

TOTAL ASSETS

Total assets as at 31st December, 2002 amounted to HK\$207.7 million (2001 — HK\$225.8 million). Assets held by the Group are mostly denominated in Hong Kong dollars. Only a small portion is denominated in United States dollars and the exposure to exchange rate risk is minimal.

As at the end of the year, the Group still maintained a very strong liquidity position with other investments in securities amounted to HK\$22.4 million (2001 — HK\$41 million) and total cash and bank balances amounted to HK\$165.8 million (2001 — HK\$140 million). During the year, held-to-maturity securities of HK\$22.2 million were fully redeemed at par.

CAPITAL STRUCTURE

Currently, the Group is totally debt-free. There were no charges on the Group's assets and the Group had no material capital commitment or contingent liabilities outstanding as at 31st December, 2002 (2001 — Nil).

At the balance sheet date, the net asset value of the Group amounted to HK\$206.1 million (2001 — HK\$222.4 million) and the net asset value per share stood at HK\$0.92 (2001 — HK\$0.99).

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CHANGES IN ACCOUNTING POLICIES

Following the adoption of the new and 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 impacts on the profit and loss account nor the balance sheet of the Group.

STAFF AND REMUNERATION

The Group had 13 employees as at 31st December, 2002 (2001 — 13 employees) and total staff costs incurred during the year amounted to HK\$1.9 million (2001 — HK\$1.2 million). The Group offers competitive remuneration packages to its employees where no share option scheme for employees was implemented.

OUTLOOK

Looking ahead, we expect 2003 is another challenging and difficult year to the Group as the economies remain weak and negative sentiment prevails. Given the strong liquidity resources, the Group will continue to take a cautious approach in seeking various investment opportunities with attractive long-term returns.