



OVERALL PERFORMANCE

2002 was a challenging year, both for Hong Kong and the Century Legend Group. Despite record low interest rates, there was not a great deal of improvement in the general economic environment. The lingering high unemployment rate, ongoing deflation, further declines in the real estate market and the growing incidence of personal bankruptcies all being unfavourable market conditions present in the service industry. Inevitably turnover and profit margin of our core businesses in travel agency, health and beauty services and money lending have been adversely affected.

BUSINESS SEGMENT REVIEW

Travel Agency

During the year, our tour operator maintained its business focus on Hong Kong-Macau ferry route ticketing, hotel reservation and sale of customised holiday package in Hong Kong and Macau. Turnover surged by HK\$16.0 million to HK\$25.0 million in 2002. Despite the very encouraging increase in revenue in 2002, it is anticipated that the first half of 2003 will be very tough for the tourist industry. The recent outbreak of SARS crisis in Hong Kong has had a profound detrimental impact on the tourism industry. In general, looking ahead, the Group will redouble its efforts to exceed customers' expectations through quality assurance and service excellence. We are confident we are capable of enduring and overcoming the hardship.

Health and Beauty Services

Compared to HK\$6.5 million turnover in 2001, our health and beauty services generated HK\$25.3 million of revenue in 2002 as a result of a full year operation since its acquisition in the fourth quarter in 2001. The sluggish local economy and weak consumer sentiment have depressed the demand and desire for consumer-related activities. This segment incurred a loss of HK\$5.2 million of which about 75% was caused by the new ladies beauty center (Spa D'or) opened in March 2002. Currently, Spa D'or is at the stage of market reach and brand building. It requires time to broaden its customer base and gain recognition from the industry. On the other hand, Headquarters, our premium hair salon in town, faced keen competition and immense pressure for price cuts. To boost sales and profit margin, we have begun to explore new customers targets, for instance, the young and the fashionable niche group. Mainland China is also seen to be a market with great potential for the future development of Headquarters following China's accession into the World Trade Organization, coupled with its consumer population of 1.3 billion and the continuously improving economy and living standards.

Money Lending

Loan interest income declined 24% from HK\$5.8 million in 2001 to HK\$4.4 million in 2002. In view of the sharp rise in the number of personal bankruptcies, delinquent loans and keen competition from banks offering loans at falling interest rates, it is expected that loan interest income may drop even further in 2003. Nevertheless, management will continue to exploit new market opportunities and develop alternative income sources while maintaining its prudent lending policy.

Liquidity and Financial Resources

During the year, the Group raised HK\$4.9 million by way of private placing of 344,160,000 ordinary shares with the net proceeds to be used as general working capital. As at year end, the Group had fully settled the outstanding shareholders' loan while still holding cash and bank deposits of approximately HK\$42.8 million (2001: HK\$141.9 million). About 67% of the cash and bank deposits were denominated in US dollars with the remainder in Hong Kong dollars.

As most of the transactions were conducted either in US dollars or Hong Kong dollars with the exchange rates being relatively stable, the Group is not exposed to any significant exchange rate risk.

The Group's financial position remained strong with no borrowing from banks, contingent liability and charge on assets anytime during the year.

Employees and Remuneration Policy

The Group's total staff costs for the year ended 31 December 2002, excluding Directors' emoluments, amounted to HK\$12.5 million (2001: HK\$7.2 million). As at 31 December 2002, the Group employed a total of 132 (2001: 140) permanent staff.

Existing human resources policies and procedures are based on performance and merit. The Group ensures that the pay levels of its employees are competitive to the market and employees are rewarded on a performance-related basis within the general framework of its salary system. Discretionary bonus is linked to the performance of the Group as well as individual performance.

The Group has a share option scheme under which Directors may at discretion grant options to Executive Directors and full time employees of the Company and its subsidiaries to subscribe for shares in the Company. There was no option outstanding at any time during the year.