Management Discussion and Analysis

OPERATION REVIEW

Broking

As the average daily turnover in the local stock market continued to drop in 2002 to approximately HK$6.474 billion from approximately HK$8.026 billion in 2001, commission income from securities and commodities broking was further reduced. Turnover from broking operations dropped by 27% when compared to 2001. However, commission income from online securities trading increased substantially in 2002. Interest income fell by approximately 43% due to low interest rate and contraction of the margin loan portfolio. A strategic alliance had been formed with an institutional broking firm in the United States to provide to its clients exclusive research, execution and clearing services in Hong Kong stocks. By the end of 2002, there were nine local branches for retail sales after the consolidation of two branches in 2001 and three branches in 2002.

Loss on the disposal of long term investment had included amount transferred from the long term investment revaluation reserve already made in the balance sheet as at 31 December 2001 and transferred to the profit and loss account for the year ended 2002. Provision for the investment property at Lippo Centre had also been made.

Our corporate finance team has been performing well with various assignments including new listings, takeovers and general advisory work. Fees income increased sharply when compared to 2001.

The Group continued to contain costs and this resulted in the reduction of approximately 10% in administrative and operating expenses.

Personal Loan

The personal loan business performed satisfactorily despite high delinquency ratio eroding the profit margin and additional provision has to be made. But the reluctance of banks to further provide funding due to high bankruptcy rates in the market hampered the growth of the loan portfolio. At the end of 2002, there were nine branches offering personal loan services.

MANAGEMENT OF RISK

The credit committee holds regular meetings to monitor risks. Control guidelines have constantly been updated to keep abreast with the market conditions. Due to high bankruptcy rates, granting of personal loans is more prudent.

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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 2002, the Group's total bank borrowings apart from those for share margin finance business and personal loan business amounted to HK$20 million (2001: HK$24.6 million), which, when related to the Group's shareholders' fund, are equivalent to a gearing ratio of approximately 9.4% (2001: 6.8%).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

As at 31 December 2002, the Group had no significant exposure to fluctuations in exchange rates and any related hedges.

CAPITAL STRUCTURE

At 1 January 2002, the Company had 968,216,648 outstanding warrants which entitled the holders to subscribe in cash for fully paid ordinary shares of HK$0.025 each in the Company at a subscription price of HK$0.11 per share on or before 18 April 2002. During the year, 320,300 of these warrants were exercised for 320,300 fully paid ordinary shares of HK$0.025 each in the Company at HK$0.11 per share for a total cash consideration, before expenses, of HK$35,233. The remaining 967,896,348 warrants lapsed at the expiry date on 18 April 2002.

During the year, a bonus issue of warrants was made in the proportion of one warrant for every five ordinary shares held by members on the register of members on 21 June 2002, resulting in 972,387,348 warrants being issued. Theses warrants entitle the holders to subscribe in cash for fully paid ordinary shares of HK$0.025 each in the Company at a subscription price of HK$0.08 per share (subject to adjustment) at any time from the date of issue to 21 June 2003. Up to 31 December 2002, 54,200 of these warrants were exercised for 54,200 fully paid ordinary shares of HK$0.025 each in the Company at HK$0.08 per share for a total cash consideration, before expenses, of HK$4,336.

At 31 December 2002, the Company had 972,333,148 outstanding warrants. The exercise in full of these warrants would, under the present capital structure of the Company, result in the issue of 972,333,148 additional ordinary shares of the Company and additional share capital of HK$24,308,329 and share premium of HK$53,478,323, before issue expenses.

Apart from the warrants, the Group had no debt securities or other capital instruments as at 31 December 2002 and up to the date of this report.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATES

The Group had no material acquisitions and disposals of subsidiaries and associates for the year ended 31 December 2002.

CHARGES ON ASSETS

As at 31 December 2002, the Group's investment properties was mortgaged to a bank for installment and revolving loan facilities.

INVESTMENTS

For the year ended 31 December 2002, the Group's portfolio of Hong Kong listed securities decreased due to the realisation of certain investment portfolios and losses were sustained. Consequent to the drop of market prices, the balance of investment portfolio has decreased in value.

As at 31 December 2002 the Group did not have any significant investment plans or significant investment held.

CONTINGENT LIABILITIES

At the balance sheet date, the Group's contingent liabilities not provided for in the financial statements are as follows:

	GROUP		COMPANY	
	2002	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	**—**	—	**853,900**	875,370
Guarantees given to banks in connection with letters of guarantee issued by banks	**5,500**	5,500	**5,500**	5,500
	5,500	5,500	**859,400**	880,870

In addition, the Company had guarantees given to financial institutions for commodities and bullion trading facilities granted to two subsidiaries of approximately HK$11,970,000 (2001: HK$11,970,000) which remained unutilised at 31 December 2002 (2001: Nil).

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EMPLOYEES

As at 31 December 2002, the total number of employees of the Group was approximately 260 (31 December 2001: approximately 300). Employees' cost (including directors' emoluments) amounted to approximately HK$66 million for the year (2001: HK$66 million).

The Group considers its employees as its most valuable asset. Apart from salary payment, other staff benefits include medical subsidies, life insurance, provident fund and subsidized external training. Continuous Professional Training will continue to be arranged for those staff registered with the Securities and Futures Commission. Performance of the employees is normally reviewed on an annual basis with adjustment compatible to the market. Individual employee may also receive a discretionary bonus at the end of each year based on performance. A new employee share option scheme was adopted by the Company and became effective on 18 June 2002.

PROSPECTS

Brokerage and Financial Services

The abolition of the minimum commission rate will have significant impact on the commission revenue of the Group and on the account executives. We will keep improving our quality of service to justify the commission rate. We will continue to recruit account executives and vigorously promote online trading. Also with the abolition of the minimum commission, the online trading platform under Sctrade.com Limited will gradually be migrated under South China Securities Limited. Apart from bullion, trading of futures contracts will be added to the existing platform. The Group will continue to develop and explore new products such as equity linked instruments and other financial planning services so as to expand the income base. With an experienced team, South China Capital Limited will actively pursue every kind of advisory services and primary securities market opportunities. It is expected that the number of assignments will increase.

The first phase of the new Sctrade System to replace the front office securities dealer workstation part of the existing trading engine for conventional and online trades had been fully implemented by March 2003. The Sctrade System is intended to be built with a longer term objective to also form the platform for establishing electronic commerce.

To batter through the current tough and adverse market conditions, the Group will continue to control all direct and indirect expenses including further consolidation of branch offices.

Personal Loan

In order to maintain the profit margin, we will control costs and monitor delinquency ratio. Also we will seek funding facilities from banks and other external sources including various types of corporate finance.

Shing Shin Cheung, Stewart
Chief Executive Officer