

## Discussion and Analysis of Annual Results

2002 was a year of structural change for the Group. The disposal (the "Disposal") of The Hongkong Chinese Bank, Limited ("HKCB") increased the Group's net assets by HK\$0.8 billion and released funds of over HK\$3.3 billion. Following the Disposal, HK\$2 billion was distributed to the shareholders of the Company, leaving behind net assets of the Group of HK\$2.8 billion.

During the year, the Group continued to engage in various financial services businesses, including banking, treasury and securities investments, corporate finance, securities brokerage, fund management and other related services but restructured to reduce its reliance on banking business. The Disposal took place at an opportune time in view of the subsequent further deterioration of asset quality and narrowing of interest margins suffered by the banking industry in Hong Kong in 2002. However, the downturn in the local stock market adversely affected the Group's results. The Group recorded a net loss attributable to shareholders for the year of HK\$111 million, representing a reduction of 42 per cent. from last year's loss of HK\$192 million.

### TURNOVER

Turnover for the year dropped to HK\$260 million (2001 — HK\$894 million) due mainly to the decrease attributable to banking and money lending businesses as a result of the Disposal. Turnover contributions from treasury and securities investments, banking and money lending businesses, and corporate finance and securities brokerage represented 44 per cent. (2001 — 11 per cent.), 15 per cent. (2001 — 74 per cent.) and 21 per cent. (2001 — 8 per cent.) respectively of the total turnover. Turnover generated from banking and money lending businesses for the year included the results from HKCB and its subsidiaries up to the Disposal in January 2002 and The Macau Chinese Bank Limited (formerly known as Finibanco (Macau), S.A.R.L.) since its acquisition by the Group in May 2002.

### OPERATING RESULTS FOR THE YEAR

Despite interest rate reducing further in 2002, the Group was able to diversify into better yielding investments and achieved satisfactory results. The bond portfolio of the Group acquired during the year produced an average return of over 6 per cent. per annum. Net income contributed from treasury and securities investments increased to HK\$50 million (2001 — HK\$16 million). However, the continuing contraction and weakness of the local stock market adversely affected the corporate finance and securities brokerage businesses, resulting in a loss of HK\$31 million (2001 — gain of HK\$9 million). The adverse conditions in the stock market also led to a provision of HK\$88 million (2001 — HK\$72 million) being made for fund management activities in respect of a guaranteed return arrangement provided by the Company. In view of the continuing uncertainty of the stock market during the year, notice has been given by the Group to terminate the management agreement and the return guarantee with effect from June 2003.

Following the Disposal, net income from banking and money lending businesses no longer constituted a major source of income of the Group and income from this source reduced significantly to HK\$12 million (2001 — HK\$105 million) before accounting for the loss on the Disposal of HK\$11 million.

### FINANCIAL POSITION

Total assets of the Group decreased by HK\$1.1 billion to HK\$3.5 billion (2001 — HK\$4.6 billion) as a result of the distribution paid to the shareholders of the Company totalling HK\$2 billion, net of the increase in net assets upon the Disposal of HK\$0.8 billion. The consideration received upon the Disposal amounted to HK\$4.2 billion, comprising HK\$3.4 billion in cash and the remaining balance in certificates of deposit issued to the Company. The certificates of deposit were fully redeemed at par during the year. Most of the assets held by the Group were denominated in Hong Kong dollars or United States dollars. Exposure to exchange rate risk was minimal.

As at 31st December, 2002, the net asset value of the Group dropped HK\$1.3 billion to HK\$2.8 billion (2001 — HK\$4.1 billion) after accounting for the distribution to shareholders and the increase in net assets upon the Disposal. Net asset value per share stood at HK\$2.06 (2001 — HK\$1.53 per share, after deducting the total distribution paid during the year of HK\$1.495 per share which consisted of final distribution for 2001 of HK3 cents per share and special interim distribution and interim distribution for 2002 of HK\$1.45 per share and HK1.5 cents per share, respectively). Despite the payment of the distribution, the Group's financial position strengthened over the year with liquidity ratio increased to 3.9:1 (2001 — 2.4:1).

Gearing ratio (total borrowings to shareholders' funds) of the Group was extremely low at less than 2 per cent. throughout the year. Total borrowings (excluding liabilities relating to banking operations) of the Group at the end of the year of HK\$21 million (2001 — HK\$69 million) were all bank loans, of which HK\$11 million (2001 — Nil) was secured by certain collateral of the clients of the Group placed on margin accounts with the Group's securities and commodities brokerage business. These collaterals had an aggregate quoted market value of HK\$67 million as at 31st December, 2002. The remaining balance of the bank loans of HK\$10 million (2001 — HK\$69 million) was unsecured. All the bank loans were denominated in Hong Kong dollars, repayable within one year and carried interest at floating rates.

As at 31st December, 2002, there were no charges on the Group's assets (2001 — Nil). Other than those attributable to banking operations, the Group had no material capital commitments or contingent liabilities outstanding at the balance sheet date (2001 — Nil).

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### CHANGES IN DISCLOSURE PRACTICES AND ACCOUNTING POLICIES

Following the Disposal, the Group no longer follows the disclosure requirements as set out in the Supervisory Policy Manual “Financial Disclosure by Locally Incorporated Authorized Institutions” issued by the Hong Kong Monetary Authority. This change resulted in the restatement of the Group’s profit and loss account, balance sheet and cash flow statement to conform with the current year’s presentation with details as set out in Note 3(a) to the financial statements.

In addition, certain accounting policies of the Group and disclosure practices were changed as a result of the adoption of the new and revised accounting standards issued by the Hong Kong Society of Accountants with details as set out in Note 2 to the financial statements. These had no material impact on the results nor net asset value of the Group.

### STAFF AND REMUNERATION

As at 31st December, 2002, the Group had 115 employees (2001 — 670 employees). Total staff costs incurred during the year amounted to HK\$68 million (2001 — HK\$269 million). The Group offers competitive remuneration packages to its employees. Certain employees were granted options under a share option scheme implemented in 1992 with details as set out in Note 26 to the financial statements. The scheme expired on 21st September, 2002.

### OUTLOOK

Looking ahead, we expect that 2003 would be another challenging and difficult year to the Group in view of the weak and uncertain economic environment. However, with its strong and healthy financial position, the Group is well placed to actively but prudently explore investment opportunities in the financial services-related sectors in the region.