

DISCUSSION AND ANALYSIS OF ANNUAL RESULTS

2003 was a dramatic year to Hong Kong. The outbreak of Severe Acute Respiratory Syndrome ("SARS") drastically cut down most of the economic activities in the first half of the year with poor sentiment in the stock and property markets. However, with SARS contained since June, the announcement of the Closer Economic Partnership Arrangement between China Mainland and Hong Kong and other economic recovery policies implemented by the local government, a generally strong rebound in the local economy was seen in the second half of the year. Against this background, the Group achieved an improved result. For the year ended 31st December, 2003, the Group recorded a net profit attributable to shareholders of HK\$5 million, compared with a loss of HK\$16.3 million for last year.

RESULTS FOR THE YEAR

Despite the stagnant market conditions during the first half of the year, the Group's total turnover still remained at a satisfactory level of HK\$74.4 million (2002 – HK\$90.5 million). Mortgage finance and treasury investments (which includes securities investment and other treasury activities) remained principal businesses of the Group.

In view of fierce competition in lending business and depressed profitability of mortgage loan assets, total loan portfolio of the Group further reduced and income generated from mortgage finance dropped during the year. However, the Group took advantage of the improved conditions in both Hong Kong and overseas securities markets and invested in higher yield securities. Total income from these investments for the year amounted to HK\$4.9 million (2002 – loss of HK\$18.4 million), of which HK\$2.5 million (2002 – Nil) related to overseas investments. Against this, a provision for impairment in value of HK\$4.2 million (2002 – Nil) was made for its investment securities.

In addition, the Group continued to control costs with administrative expenses reduced by 10 per cent. from HK\$3.7 million to HK\$3.3 million whereas other operating expenses reduced substantially from HK\$1.5 million to HK\$0.6 million.

With the adoption of the revised accounting standard in relation to deferred tax, the Group was required to recognise a large deferred tax asset of HK\$4.3 million (2002 – Nil) in respect of unutilised tax losses arisen in previous years, resulting in a tax credit of the same amount in the profit and loss account.

TOTAL ASSETS

As at 31st December, 2003, total assets increased slightly to HK\$213 million (2002 – HK\$208 million) after taking into account the aforementioned deferred tax assets. Assets held by the Group are mostly denominated in Hong Kong dollars and United States dollars, representing 54 per cent. (2002 – 30 per cent.) and 34 per cent. (2002 – 69 per cent.) of the total assets respectively. Currently, the Group's exposure to exchange rate risk is not material. The Group will remain alert of the changing global circumstances which may affect the exchange rate exposure.

The Group maintained a very strong liquidity position throughout the year. As at the balance sheet date, the Group had listed investments amounting to HK\$86 million (2002 – HK\$22 million) and cash and bank balances amounting to HK\$107 million (2002 – HK\$166 million).

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 the end of the year (2002 – Nil).

The net asset value of the Group as at 31st December, 2003 amounted to HK\$211 million (2002 – HK\$206 million) with the net asset value per share at HK\$0.94 (2002 – HK\$0.92).

CHANGES IN ACCOUNTING POLICIES

Following the adoption of the 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.

STAFF AND REMUNERATION

The Group had 14 (2002 – 13) employees as at 31st December, 2003 and total staff costs incurred during the year amounted to HK\$2.2 million (2002 – HK\$1.9 million). The Group offered competitive remuneration packages to its employees where no share option scheme for employees was implemented.

OUTLOOK

With continued improvement of the economic and market conditions, the Group is cautiously optimistic about the economic performance of Hong Kong in 2004. It will continue to leverage its strong financial position to capture various investment opportunities with attractive returns in order to optimise the value of its resources. However, the Group shall remain firm on risk management and conscious of the changing global economic and political conditions and their impact on the Group's business development.