

DISCUSSION AND ANALYSIS OF ANNUAL RESULTS

In 2003, the Group achieved a net profit attributable to shareholders of HK\$106 million in contrast to a loss of HK\$111 million for last year. The significant improvement of the results showed that the restructuring of the businesses which was started by the Group some years ago is starting to bear fruit. During the year, the Group continued to focus on enhancing asset quality and cost control. All major business segments of the Group contributed to the favourable results despite the extremely difficult operating environment in the first half of the year which fortunately recovered strongly in the second half.

RESULTS FOR THE YEAR

Turnover for the year 2003 totalled HK\$617 million which was 137 per cent. higher than the HK\$260 million recorded in 2002. Of this, 83 per cent. (2002 – 44 per cent.) was attributable to treasury and securities investments, 9 per cent. (2002 – 21 per cent.) to corporate finance and securities broking businesses and 3 per cent. (2002 – 13 per cent.) to banking businesses and fund management.

Treasury and securities investments

During the year, the Group responded to declining deposit rates and diversified into higher yielding bonds and equity investments. Total investment portfolio at the end of 2003 stood at HK\$1.2 billion (2002 – HK\$0.65 billion). Turnover from treasury and securities investments increased 347 per cent. to HK\$512 million (2002 – HK\$115 million). The resultant operating profit of HK\$141 million represented a significant improvement of 182 per cent. when compared to the HK\$50 million recorded in 2002.

The Group remained cautious on the composition of its investment portfolio with a continuing focus on improving overall asset quality. The performance of the investment portfolio improved significantly and realised and unrealised gains rose to HK\$97 million (2002 – loss of HK\$3 million). Taking advantage of the market conditions, the Group reclassified certain held-to-maturity securities and investment funds into other investments in securities, under which securities are marked to market or fair value, to reflect the intention to sell in response to market changes. As a result, an unrealised gain of HK\$20 million (2002 – Nil) was recognised. Interest earned from the bonds continued to represent a stable source of income to the Group. The bond portfolio of the Group earned an average return of 7 per cent. per annum and interest income for the year, including interest on bank deposits, totalled HK\$51 million (2002 – HK\$55 million). However, a provision for impairment in value of HK\$20 million (2002 – Nil) was made against long-term investment securities.

Corporate finance and securities broking businesses

With the cessation of SARS, business confidence has picked up with the return of foreign and local investors. The local stock market rebounded strongly in the second half of the year, which benefited the Group's corporate finance and securities broking businesses. Although turnover for 2003 of HK\$57 million (2002 – HK\$55 million) remained at a similar level to the previous year, improving trading opportunities have allowed this business segment to register a profit of HK\$4.8 million in contrast to the loss of HK\$31 million in 2002.

Banking businesses

Banks in Hong Kong continued to face narrowing interest margin and sluggish loan demand which constrained revenue growth. In hindsight, the disposal of The Hongkong Chinese Bank, Limited by the Group in early 2002 was a timely withdrawal from the Hong Kong banking sector. Within the Group now, banking turnover for the year comes solely from The Macau Chinese Bank Limited ("MCB"), an 85 per cent. owned subsidiary acquired by the Group in May 2002. The Group's banking segment recorded an increased profit of HK\$4.8 million (2002 – HK\$1.2 million) which also reflected a consolidation of full year results of MCB in 2003.

Fund management

Notwithstanding the difficult market conditions in the first half of the year, the Group was able to obtain for the improved results in its fund management activities. In relation to the early termination by the Group of a guaranteed return arrangement with a fund managed by it, the Group made a write-back of HK\$11 million for overprovision made in previous years.

Cost control

In the face of the challenging operating conditions, the Group continued to strengthen its efforts on improving cost efficiency. The success of the cost control efforts was reflected in an 18 per cent. reduction in administrative expenses to HK\$70 million (2002 – HK\$85 million) and an 8 per cent. reduction in other operating expenses to HK\$34 million (2002 – HK\$37 million).

TOTAL ASSETS AND NET ASSETS

As at 31st December, 2003, total assets increased 6 per cent. to HK\$3.68 billion (2002 – HK\$3.48 billion). To enhance investment yield, the Group increased its investment portfolio to HK\$1.2 billion (2002 – HK\$0.65 billion), comprising debt securities of HK\$0.51 billion (2002 – HK\$0.36 billion), equity securities of HK\$0.45 billion (2002 – HK\$0.15 billion) and investment funds of HK\$0.24 billion (2002 – HK\$0.14 billion). Assets held by the Group were mostly denominated in Hong Kong dollars and United States dollars. The Group's exposure to exchange rate risk was not material. Where appropriate, hedging instruments including forward contracts, swaps and currency loans were used. The Group will remain alert to the changing global conditions which might affect the exchange rate exposure.

Notwithstanding the interim and final distributions made to the shareholders, the net asset value of the Group slightly increased to HK\$2.82 billion (2002 – HK\$2.78 billion). During the year, the Company repurchased 4.7 million shares, which further enhanced the net asset value per share of the Group. The consolidated net asset value per share increased slightly from HK\$2.06 to HK\$2.09 in 2003.

FINANCIAL POSITION

The Group continued to maintain a prudent and strong financial balance sheet in 2003. Liquidity ratio measured as current assets to current liabilities remained high at approximately 3.9 to 1 (2002 – 3.9 to 1). At the balance sheet date, the group is relatively debt free with gearing ratio standing at 0.4 per cent. (2002 – 0.8 per cent.) The borrowing of the Group comprised an unsecured bank loan of HK\$10 million (2002 – HK\$21 million). The bank loan was denominated in Hong Kong dollars, repayable within one year and carried interest at floating rates.

At the end of the year, there were no charges on the Group's assets (2002 – Nil). Other than those relating to the banking operations, the Group had no material contingent liabilities outstanding (2002 – Nil).

CHANGE IN ACCOUNTING POLICY

In the current year, the Group adopted the revised accounting standard issued by the Hong Kong Society of Accountants relating to income tax, the relevant accounting policy of the Group was changed and prior period adjustments were made with details as set out in Note 3(m) and Note 2 to the financial statements, respectively. However, these have no material impact on the results or the net asset value of the Group.

STAFF AND REMUNERATION

The Group had 142 (2002 – 115) employees as at 31st December, 2003. Total staff costs amounted to HK\$58 million which was 14 per cent. lower than the HK\$68 million recorded in 2002. The Group offers competitive remuneration packages to its employees. Currently, there is no share option scheme for employees.

OUTLOOK

In view of recent continuing improvement of the economic and market conditions, the Group is cautiously optimistic about the global and regional economic prospects in 2004. It will continue to leverage its strong financial position to capture various investment opportunities with attractive returns in its desire to achieve fuller value for its resources. As the Group seeks to expand its businesses, it will continue to adopt a cautious and prudent approach in assessing new investment opportunities.