

Management Discussion and Analysis

OPERATION REVIEW

Securities broking, trading and investment

The Hong Kong securities market recorded an all-time high market capitalization in 2004. Market turnover increased substantially as compared with 2003. The average stock market daily turnover leaped from HK\$10.3 billion in 2003 to HK\$15.9 billion in 2004. Our income from securities and futures broking increased by 19% to HK\$74 million for the year of 2004 as compared with 2003. The result from the broking operation took a turn from loss in 2003 to a profit of HK\$6 million in 2004.

The Group has launched the trading of Hang Seng Index futures contracts on the existing online trading platform in August 2004. Both trading volume and the number of clients for online securities trading continued to grow. Growth in income from online securities trading together with the reopening of a local branch in Kwun Tong in March 2004 further contributed to the improvement of the overall performance.

Previous impairments in the value of both trading and non-trading securities recorded write-backs of HK\$10.4 million and HK\$3.2 million respectively on revaluation to the closing prices at the end of the last year. The Group had trading securities of HK\$66.7 million and non-trading securities of HK\$14 million in value as at 31 December 2004.

Margin financing and money lending

Our loan and advances portfolio for margin financing and personal loans dropped by 7% to HK\$179.8 million. The overall income from our loan portfolio for margin financing and personal loans declined by 18% to HK\$39 million. Provisions for bad and doubtful debts decreased by approximately 49% from HK\$14.5 million in 2003 to HK\$7.4 million for the year of 2004. We will continue to exercise tight credit monitoring measures to control the quality of our loan portfolio.

Corporate advisory and underwriting

Due to intense competition in obtaining corporate advisory business, revenue from this segment in 2004 declined by 43% to HK\$8.3 million as compared with the year of 2003 and resulted in a loss of HK\$1.6 million. It was a substantial positive change in comparison to its loss of HK\$9.8 million in 2003. However, we will continue our effort in getting more PRC-related IPO business and corporate advisory assignments, since Hong Kong is the key offshore capital-raising center for Chinese enterprises.

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Property investment and others

Rental income from the investment property at Lippo Centre increased by 68% to HK\$3.7 million in 2004, on a year-on-year basis, as the rentable area was fully leased out by September 2003. With the turnaround of asset prices in Hong Kong, we recorded a further surplus on revaluation of the property of HK\$41 million.

MANAGEMENT OF RISK

The credit committee respectively for broking business and personal loan operation holds regular meetings to monitor risks, review and approve credit policies and control guidelines. Credit limits to individual clients as well as acceptable percentage of the margin securities have been defined based on approved guidelines.

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 2004, the Group's total bank borrowings apart from those for share margin finance business and personal loan business amounted to HK\$29 million (2003: HK\$21 million), which, when related to the Group's shareholders' fund, are equivalent to a gearing ratio of approximately 9.4% (2003: 8.6%).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

As at 31 December 2004, the Group had no significant exposure to fluctuations in exchange rates and any related hedges.

CAPITAL STRUCTURE

The Group had no debt securities or capital instruments as at 31 December 2004.

Up to the date of this report, the Company placed 970,000,000 warrants (the "Warrants") to independent investors at a price of HK\$0.026 each on 22 February 2005. The net proceeds under the warrant placing amounted to approximately HK\$25 million and will be used for the purpose of general working capital of the Company.

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The 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\$0.1012 per share (subject to adjustment) and are exercisable on or before 2 March 2006. Upon full exercise of the subscription rights attached to the Warrants, 970,000,000 shares will be issued for a cash consideration of HK\$98,164,000, which represents approximately 16.63% of the issued share capital as enlarged by the allotment and issue of the shares.

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 2004.

CHARGES ON ASSETS

As at 31 December 2004, the Group's leasehold land and building was mortgaged to a bank for installment and revolving loan facilities and the Group had pledged time deposit of HK\$5,500,000 to secure banking facilities granted to the Group.

INVESTMENTS

For the year ended 31 December 2004, the Group's portfolio of Hong Kong listed securities increased due to rise of market prices lead to increase in value on the balance of investment portfolio and realization of certain investment portfolio during the year resulted in profits sustained.

As at 31 December 2004, the Group did not have any significant investment plans or significant investment held.

CONTINGENT LIABILITIES

Details of the contingent liabilities of the Company and the Group at balance sheet date are set out in note 31 to the financial statements.

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EMPLOYEES

As at 31 December 2004, the total number of employees of the Group was approximately 198 (31 December 2003: approximately 196). Employees' cost (including directors' emoluments) amounted to approximately HK\$41 million for the year (2003: HK\$47 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. The Company adopted an employee share option scheme on 18 June 2002.

PROSPECTS

The Group operates many business platforms with the aim of providing all round services to attract and meet the needs of discerning investors. The recent creation of the Business Development Unit is a strategic move to enhance the utilization of these platforms.

The online trading platform enabled us to expand our customer base especially outside the territory and there is significant cost efficient and effective justification for more extensive use of the online trading platform. The Group launched the trading of Hang Seng Index futures contracts in the existing online trading platform in August 2004. The performance of this new service was well accepted and we are positive about its future growth rate. With this successful experience, a wide array of global commodity futures contracts, introduced by the Business Development Unit, will soon go onto the online trading platform. The Group will continue to fortify and diversify our product base and cross-sell via the different business platforms to generate more income. Therefore, it is expected that with the establishment of a China Business Development marketing team, capital market cross-selling opportunities, introduction of structural products to Mainland corporate customers and other business benefits can be achieved.

On the local retail brokerage front, the Group will keep identifying appropriate locations for expanding its branch network. The Group will also continue its effort in recruiting high calibre account executives to further expand our traditional securities broking business platform.

Bankruptcy figures have shown significant improvement from a year ago. For our money lending business, we will ride on the business opportunities with the improved economic conditions while continuing to exercise tight credit control to ensure the quality of our loan portfolio concurrently and closely monitor the delinquency ratio so as to maintain the profit margin and further reduce bad debts.