

DISCUSSION AND ANALYSIS OF ANNUAL RESULTS

In 2004, Hong Kong's economy continued to benefit from the implementation of the Closer Economic Partnership Arrangement between China Mainland and Hong Kong and the surge of China Mainland tourists to Hong Kong. The global economy also expanded by 4 per cent., the best since 2000. The Group took advantage of the strong rebound in both the local and global economy by seeking good investment opportunities in Hong Kong and overseas, and achieved encouraging results. For the year ended 31st December, 2004, the Group recorded a net profit attributable to shareholders of HK\$8.3 million, being 65 per cent. higher than the HK\$5 million recorded in last year.

RESULTS FOR THE YEAR

Due to the robust market conditions during the year, the Group's total turnover increased by 155 per cent. to HK\$189.7 million (2003 – HK\$74.4 million) for the year 2004, mainly arising from active trading of securities investments. Mortgage finance and treasury investments (which includes securities investment and other treasury activities) remained the principal businesses of the Group.

The Group took advantage of the improved market conditions in both Hong Kong and overseas securities markets and invested in higher yield securities to enhance returns. Total returns from these investments for the year amounted to HK\$12.8 million (2003 – HK\$4.9 million), of which HK\$8.4 million (2003 – HK\$2.5 million) related to overseas investments mainly in Singapore and Japan.

In view of the weak loan demand and narrowing interest margin, lending business in Hong Kong remained competitive and challenging. Total loan portfolio of the Group reduced and interest income from mortgage finance dropped. Management continued to monitor the portfolio and loan loss was kept to a minimum.

With tightening cost control, the Group's administrative expenses reduced by 11 per cent. from HK\$3.3 million to HK\$2.9 million. In addition to improving operational performance and cost efficiency, the Group was devoted to exploring growth in existing businesses and various new potential investment opportunities. The associated costs incurred resulted in a rise of other operating expenses from HK\$0.4 million to HK\$2.2 million in 2004. A provision for impairment in value of HK\$3.6 million (2003 – HK\$4.2 million) was made against its long term investment securities during the year.

TOTAL ASSETS

As at 31st December, 2004, total assets increased slightly to HK\$221 million (2003 – HK\$213 million). Assets denominated in Hong Kong dollars and United States dollars amounted to 62 per cent. (2003 – 88 per cent.) of the total assets. The remaining balance was mainly denominated in Singapore dollars and Japanese yen. The Group considered that its exposure to exchange rate risk was not material, but shall remain alert to changing global circumstances which may affect exchange rate exposure.

TOTAL ASSETS *(Continued)*

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\$23 million (2003 – HK\$86 million), unlisted investments amounting to HK\$23 million (2003 – Nil) and cash and bank balances amounting to HK\$168 million (2003 – HK\$107 million). The unlisted investments were investment funds with underlying assets principally composed of quoted investments in Asia which had been marked to market at the year end date. During the year, the Group liquidated part of its listed investment portfolio to realise the gains resulted from the market rebound.

CAPITAL STRUCTURE

Currently, the Group is debt-free. There were no charges on the Group's assets and the Group had no material capital commitment or contingent liabilities outstanding at the end of the year (2003 – Nil).

The net asset value of the Group as at 31st December, 2004 increased by 4 per cent. to HK\$219 million (2003 – HK\$211 million) with the net asset value per share stood at HK\$0.97 (2003 – HK\$0.94).

STAFF AND REMUNERATION

The Group had 16 (2003 – 14) employees as at 31st December, 2004 and total staff costs incurred during the year amounted to HK\$1.9 million which was 13 per cent. lower than the HK\$2.2 million recorded in 2003. The Group offers competitive remuneration packages to its employees. Currently, there is no share option scheme for employees.

OUTLOOK

With continued improvement of the economy and market sentiment, the Group is cautiously optimistic about the economic performance of Hong Kong in 2005. It will continue to leverage its strong financial position to seize investment opportunities with attractive returns in order to optimise the value of its resources. However, the Group shall remain very cautious on risk management and changing global economic and political conditions, and their impact on the Group's business development.