

## Management Discussion and Analysis

The following comments should be read in conjunction with the audited consolidated financial statements of the Company and its subsidiaries (the "Group") and the related notes on the financial statements.

### REVIEW OF RESULTS

#### Turnover

The Group's turnover for the year was HK\$3.7 million, representing a decrease of 48.6% when compared to last year. The drop in turnover was mainly attributable to the fall in corporate advisory fee and the reduction in trading and investment activities in securities. The market for corporate finance and advisory business was very competitive and the regulatory requirements are very stringent which resulted in difficulties in gaining new assignments and incurring additional time for completion of corporate exercise.

#### Other revenue

In 2004, after the change of management, the Group has been focusing on developing and exploring new business opportunities. The investment activities in securities had reduced significantly. Therefore, there was no disposal income on investment securities as compared to HK\$12 million non-recurring trading income on securities in respect of 2003.

#### Staff costs

The Group has reduced the number of employees consequent upon a reduction in the level of operations as one of the subsidiaries had been disposed of and the holding company was in the process of building up its core businesses. The staff costs dropped from HK\$9.7 million to HK\$4.7 million in 2004.

#### Operating expenses

The increase in operating expenses for the year under review was mainly due to legal & professional costs and consultancy fees in relation to aborted acquisition exercises, development of business plans, pursuit of potential business opportunities and evaluation of possible investment projects. In addition, bad debts were written off in 2004 amounted to HK\$0.66 million.

The difficult market environment of the corporate advisory business, the reduction in securities dealings, the change of management and the business development costs were the major factors that attributed to the loss before tax of HK\$7.2 million (2003: profit before tax of HK\$7.5 million).

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### LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group had cash reserves of HK\$186.7 million as at 31 December 2004. The cash reserves were placed in HKD cash and short term deposits with major banks in Hong Kong.

The Group had a very sound financial position and there were no borrowings during the year and as at the balance date. There was no change as to the share capital structure of the Group during the year.

During the year, a subsidiary was disposed of with a profit of HK\$1.47 million. The disposal of the subsidiary was pursuant to the Disposal Agreement signed on 7 December 2003. Details of the disposal are set out in Note (5).

Current assets of the Group were recorded at HK\$187.2 million as compared to the current liabilities of HK\$1.1 million as at 31 December 2004. The Group has a strong working capital for future business plans and developments.

#### Gearing ratio and financial management

Gearing ratio is measured on the basis of the Group's total interest bearing debts net of cash reserves over the Company's shareholders' funds as of the reporting date. Net of debt balances, the Group had a net cash surplus (net of the total interest bearing debts and the cash reserves) of HK\$186.7 million and HK\$76.7 million at the close of 31 December 2004 and 2003 respectively. As such, the gearing ratio as required under paragraph 32 of Appendix 16 of the Listing Rules at these two days did not exist.

The Group did not have any exposure to fluctuation in foreign currency exchange rates arising from the operations. Therefore, the Group did not have any foreign exchange contracts for hedging purpose.

#### Segment reporting

The Group is principally engaged in investment holding and the provision of corporate financial advisory services. The investments activities are mainly carried out in the holding company while the subsidiary, KE Capital (Hong Kong) Limited, a company registered under the Securities and Futures Commission, carries out the corporate finance and advisory services.

The turnover in trading and investment together with the interest earned on funds was HK\$1.6 million (42.8% of total turnover). The turnover in corporate advisory segment was HK\$2.1 million (57.2% of total turnover).

The Group's principal activities and revenue for the year ended 31 December 2004 were derived from operations in Hong Kong.

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### **Employment and Remuneration Policy**

The Group had a total of 6 employees, including executive directors as at 31 December 2004. The remuneration packages to employees were commensurable to the market trend. Other employee benefits include discretionary bonus based on individual performance, medical insurance and provident funds. The Group also adopts a share option scheme under which the directors may, at their discretion, offer to any employees and executive directors of the Group options to subscribe for shares in the Company.

### **Contingent liabilities**

There is a litigation against one of the subsidiaries by a third party for the payment of HK\$712,000 on printing, translation and advertising services rendered to a customer of the subsidiary. The litigation was lodged in 2003 and since then there was no further progress or action taken by the plaintiff. The directors are of the view that no provision for the said amount is required in the financial statements of the Group for the year ended 31 December 2004 as the amount in dispute should be borne by the customer.