

DISCUSSION AND ANALYSIS OF ANNUAL RESULTS

Hong Kong achieved a strong economic growth in 2004 and the global economy expanded by 4 per cent., the best since 2000. The United States, China and Japan were the main contributors to the world economic growth. Amid the remarkable recovery in market conditions last year, the Group registered an almost two-fold increase in turnover to HK\$1,178 million (2003 – HK\$617 million).

In 2004, the Group focused on consolidating its core businesses. Additionally, the Group made several new investments in line with its long term growth strategy, including well over HK\$200 million in various property projects mainly in Hong Kong, Singapore and Japan.

However, the Group's performance was affected by volatile securities market conditions during the year. The investments held by the Group suffered an unrealised holding loss of HK\$61.3 million (2003 – gain of HK\$54.9 million). As a result, the Group reported a net loss attributable to shareholders of HK\$64.9 million, against a profit of HK\$106 million for 2003.

RESULTS FOR THE YEAR

Turnover for the year 2004 increased significantly to HK\$1,178 million, which was 91 per cent. higher than the HK\$617 million recorded in 2003. Turnover attributable to treasury and securities investments rose by 112 per cent. and that from corporate finance and securities broking businesses increased by 14 per cent.

Treasury and securities investments

In 2004, the Group took advantage of the improving equity market conditions to actively realise the investments, resulting in a realised gain of HK\$25 million (2003 – HK\$41 million). Of this, over 54 per cent. (2003 – Nil) was earned from Japanese equity market which showed the strongest performance over the year. Also, in anticipation of likely rises in interest rates, the Group took steps to adjust its investment portfolio by realising certain bonds and investment funds to a total of HK\$433 million (2003 – HK\$218 million). However, due to volatile market conditions, the Group recorded an unrealised holding loss on other investments in securities of HK\$61.3 million (2003 – gain of HK\$54.9 million) at year end, representing 5.1 per cent. (2003 – 5.6 per cent.) of the total portfolio. Notwithstanding the volatility of the investment markets, the bond portfolio continued to contribute high and stable interest income to the Group.

Corporate finance and securities broking businesses

Robust local stock market continued into 2004. This benefited the Group's securities broking business. Turnover increased by 14 per cent. to HK\$65 million (2003 – HK\$57 million) and a profit of HK\$4.1 million (2003 – HK\$4.8 million) was recorded.

Banking business

The Group's banking business continued to generate stable income to the Group. The relative contribution of interest income and non-interest income remained broadly unchanged and accounted for approximately 58 per cent. and 42 per cent. of its turnover respectively. Non-interest income was derived mainly from banking fees and commissions, income from investments and commissions from trade bills. Banking business recorded a profit of HK\$4 million (2003 – HK\$4.8 million).

Property investment

In order to enhance the recurrent income source, the Group acquired certain properties for rental purpose and participated in well located property development projects in Macau, China, Singapore and Japan. During the year, the Group invested over HK\$200 million in property investment.

FINANCIAL POSITION

As at 31st December, 2004, total assets reduced by 5 per cent. to HK\$3.5 billion (2003 – HK\$3.7 billion). To enhance investment yield, the Group increased its investment portfolio to HK\$1.5 billion (2003 – HK\$1.2 billion), comprising debt securities of HK\$0.38 billion (2003 – HK\$0.51 billion), equity securities of HK\$0.45 billion (2003 – HK\$0.45 billion) and investment funds of HK\$0.67 billion (2003 – HK\$0.24 billion). At the same time, it increased property assets to HK\$234 million (2003 – HK\$17 million).

The Group continued to maintain a prudent and strong financial balance sheet in 2004. At the balance sheet date, total borrowings of the Group amounted to HK\$209 million (2003 – HK\$10 million), comprising an unsecured bank loan of HK\$20 million (2003 – HK\$10 million) and secured bank loans of HK\$189 million (2003 – Nil), which were all denominated in Hong Kong dollars or United States dollars, repayable within one year and carried interest at floating rates. The bank loans were secured by the securities owned by the Group and its margin clients. The gearing ratio stood at a low level of 7.7 per cent. (2003 – 0.4 per cent.). Liquidity ratio measured as current assets to current liabilities remained high at approximately 3.5 to 1 (2003 – 3.9 to 1).

Taking into account the 2003 final and 2004 interim distributions made to the shareholders in a total of HK\$61 million (equivalent to HK4.5 cents per share) and the net loss for the year, the net asset value of the Group slightly decreased to HK\$2.7 billion (2003 – HK\$2.8 billion), equivalent to HK\$2.01 (2003 – HK\$2.09) per share. The distributions made for the year were the same as those for 2003.

The Group monitors the relative foreign exchange position of its assets and liabilities and allocates accordingly to minimise foreign exchange risk. When appropriate, hedging instruments including forward contracts, swap and currency loans would be used to manage the foreign exchange exposure.

Save as aforesaid, there were no charges on the Group's assets at the end of the year (2003 – Nil). Other than those relating to the banking operation, the Group had no material contingent liabilities outstanding (2003 – Nil).

STAFF AND REMUNERATION

The Group had 161 (2003 – 142) employees as at 31st December, 2004. Total staff costs amounted to HK\$57 million which was slightly lower than the HK\$58 million recorded in 2003. The Group offers competitive remuneration packages to its employees. Currently, there is no share option scheme for employees.

OUTLOOK

The Group is cautiously optimistic about the global and regional economic prospects and is confident that it would be able to take advantage of investment opportunities in Hong Kong and neighbouring countries in its pursuit to enhance shareholders' value. The Group will continue to adopt a cautious and prudent approach in assessing new investment opportunities, and look into property markets in Asia.