Financial Review

For the year ended 31 December 2002, our Group recorded a 12.7% increase in turnover to HK$1,097.0 million as compared with the prior year. This was mainly attributable to the consolidation of the whole year results of Pricerite which was acquired in March 2001.

Even though we reported an increase in turnover over prior year, deteriorating economic conditions in Hong Kong hit our Group severely as most of our Group's revenue was derived from the territory. Our Financial Services Group providing diversified financial services to its clients recorded a decrease of 12.1% in revenue as the local securities market had been worst hit by the prolonged recession and the unfavorable investment environment. Deterioration of employment market, deflationary pressure, sluggish property market together with the weak demand in local consumer market had seriously impacted the Group's retail business for the whole year. Cut-throat pricing reduction prevailing in the retail market amid the economic downturn had exerted great pressure on our retail prices, further squeezing the already thin gross margins of our retail goods. Forced dumping the optical fibre at deep discounts by the international giant players as a result of the rapid deterioration in the global telecommunication business environment had caused the selling prices of the fibre products in the market to fall below the production costs. The Group's optical fibre joint venture had inevitably suffered from the unexpectedly hard times in the telecommunication industry. The plant completed trial runs in the first half of the year but the productions came to a halt in the second half in the light of the dire business environment. These, together with one-off provision for all technology investments, including our interest in the optical fibre plant, and elimination of the goodwill for previously acquired businesses, held in hand, led to a net loss attributable to shareholders of HK$440.6 million for 2002. After the provision, our Group's investment in Internet-related business had been fully provided.

Our Group's total shareholders' equity amounted to HK$375.8 million on 31 December 2002 as compared to HK$902.6 million at the end of prior year. The decrease was attributable to the net loss reported for the year and the share repurchases made during the year.

On 31 December 2002, our cash and bank balances totaled HK$569.6 million, representing a reduction of HK$192.1 million as compared with the prior year. The reduction was primarily a result of the loss incurred during the year by the Group and start-up investment of retailing business in China. On 31 December 2002, the Group's listed investment securities were valued at HK$52.5 million. With a decline in the investment sentiment, the Group recorded a loss on the listed investment of HK$5.6 million. The future performance of the listed securities investment is still clouded by the growing deficit, the recent tax rises across all sectors and rising unemployment. However, the liquidity ratio remained healthy at 1.2 times on 31 December 2002 as compared to 1.5 times on 31 December 2001. Despite the economic ordeal in 2002, our Group remained financially sound.

Financial Review

Our total bank borrowings increased to HK$205.5 million on 31 December 2002 from HK$155.6 million on 31 December 2001. This increase in bank borrowings was one of the effects brought into being when we adjusted our merchandising strategy to extend our sourcing origin to Eastern China. During the year, the ratio of the total bank borrowings to shareholders' equity reached 54.7% on 31 December 2002 from 17.2% on 31 December 2001. We are confident that the gearing was maintained at a prudent level, especially when the majority of our borrowings were used to finance the margin trading clients of CFSG while the inventory turn of Pricerite was in line with other Hong Kong retailers. We were therefore able to comfortably set-off client borrowings against our bank financing together with a net interest margin earned from our margin book. As such, we were not exposed to material interest rate risk during 2002.

As both our borrowings and operating revenue were mainly in Hong Kong dollar, our exposure to foreign currency mismatch during the year was limited. However, we entered into US$/HK$ forward contract to address the increasing concern from market on the peg rate triggered by the Budget Deficit. Together with the currency future entered for hedging Yen exposure, the aggregate contractual value amounted to HK$26.1 million at the end of 2002.

On 31 December 2002, the following assets were pledged to secure general banking facilities granted to two subsidiaries and an associate:

(1) leasehold properties at their carrying value of approximately HK$44.8 million;

(2) cash and bank balances of approximately HK$26.9 million; and

(3) listed investment securities valued at HK$129.3 million.

At the end of the year, our Group had contingent liabilities amounted to approximately HK$17.8 million, which included a guarantee given to a bank for general banking facilities granted to an associate.

In December 2002, our Group entered the provisional sales and purchase agreement to dispose the leasehold properties at the consideration of HK$15 million. The disposal transaction was subsequently completed in March 2003. Other than that, we do not have any future plans for material investments or capital assets during the year.