

Financial Review

For the year ended 31 December 2003, our Group recorded a turnover of HK\$1,028.3 million as compared to HK\$1,097.0 million in the previous year. The decline in turnover reflected the harsh operating environment facing all our businesses. In particular, the austere economic conditions throughout the first half of the year were so severe that our financial services and retail businesses suffered a decline of 46.7% and 16.7%, respectively, in turnover. Our ability to weather the hard times lies in the fact that we continued to maintain cost consciousness and our effort to raise our operational efficiency. As the securities markets in the second half of the year were on their way to recovery, our financial services business moved forward from strength to strength. For the whole fiscal year, the Group's financial service division (CFSG) managed to contain the decline in turnover to 5.0% and ended the year with a profit of HK\$10.7 million. The Group's retail business also benefited from the economic recovery and narrowed the gap resulting from the decline in the sales during the outbreak of SARS at the beginning of the year. In hindsight, the dramatic changes in business environments throughout 2003 had made the year unprecedentedly challenging. Despite the adverse economic and investment climate, we managed to contain our net loss for the year to HK\$51.6 million from HK\$440.6 million a year ago.

Our Group's total shareholders' equity stood at HK\$340.9 million on 31 December 2003 as compared to HK\$375.8 million at the end of the last year. The decrease in equity was attributable to the loss reported for the year. In May 2003, 60 million of new shares were issued to investors, raising total net proceeds of HK\$16.4 million for general working capital.

On 31 December 2003, our cash and bank balances were HK\$664.5 million as compared to HK\$569.6 million on 31 December 2002. The improvement in cash balances was mainly due to an increase in the deposits by our securities clients whose confidence in the securities market had been improving since the beginning of the second half of the year. Our liquidity ratio on 31 December 2003 remained healthy at 1.2 times, virtually unchanged from 2002.

Our total bank borrowings on 31 December 2003 increased to HK\$341.9 million from HK\$205.5 million on 31 December 2002. The increase in bank borrowings were mainly due to the increase in margin financing to our clients as the investment activities had been fast growing in the last quarter of the year. During the year, our ratio of the total bank borrowings to shareholders' equity was 1.0 as compared to 0.55 on 31 December 2002. We maintained our gearing at a prudent level, given the fact that the majority of our bank borrowings were used in back-to-back margin financing for the clients of CFSG.

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All of the Group's borrowings are either in HK dollar or US dollar, with the interest rates priced at close to banks' funding costs. By using effective instruments to hedge any adverse changes in interest rates, our exposure to both foreign currency and interest rate fluctuation was insignificant. On 31 December 2003, our Group's listed investment securities were valued at HK\$61.2 million and a loss on investment of HK\$5.6 million was recorded for the whole year.

As at 31 December 2003, leasehold property at their carrying value of approximately HK\$29.4 million, bank deposits of HK\$20.8 million and listed investment securities valued at HK\$108.7 million were pledged to secure a bank term loan and general banking facilities granted to our Group. Save as aforesaid, we had no other material contingent liabilities at the end of the year.

As of the end of the year, we did not have any material un-hedged foreign exchange exposure or interest rate mismatch.

In July, our financial services business acquired CASH Frederick Taylor. In August, our financial services business acquired Chateron for a consideration of HK\$7.0 million.

In December 2003, our Group entered into a conditional sale and purchase agreement to acquire the entire equity interest in Rainbow Day Investments Limited, a company which will hold a property situate in Beijing, China together with a mortgage of not more than RMB372 million (equivalent to HK\$350.6 million) on the completion date stipulated in the agreement, at a consideration of approximately HK\$233.7 million. The consideration shall be settled as to approximately HK\$120.6 million by cash and as to HK\$113.1 million by issue of the consideration shares by the Company. The acquisition is expected to complete in late April 2004. Other than the above acquisitions, our Group did not make any material acquisitions or disposals during the year. There was no significant investment held during the year.

Subsequent to the year end, our Group entered into a provisional sale and purchase agreement to acquire an investment property located in Hong Kong at a consideration of approximately HK\$39.4 million. The transaction is expected to complete by the end of April 2004. Other than that, we do not have any future plans for material investments or capital assets.