

Financial Review

For the year ended 31 December 2004, our Group recorded a turnover of HK\$1,124.4 million as compared to HK\$1,033.8 million in the previous year. The increase in turnover reflected the market recovery in domestic financial sector and retail sectors. In 2004, continuous resumption in confidence of both domestic investors and consumers drove our turnover in financial services and retailing business to reach HK\$240.0 million and HK\$873.4 million respectively. Accompanied with record-high trading volume in domestic securities market, there seen an amazing growth in both turnover and the net profit in the Group's financial service division (CFSG) by 25.6% and 100.6% respectively. The Group's retail business also benefited from the economic recovery and reversed the slide in turnover since 2002. The sales of our retail business in 2004 rose slightly by 4.5% amid the steady recovery in property market, apparently lagged behind other retail sectors such as motor cars, jewellery and watches. However, the additional costs incurred in overhauling our retail network and the household product ranges together with the transitional change from domestic retailing to international franchising put us in a challenging situation to report the loss of HK\$90.5 million. For the whole fiscal year, our net loss increased to HK\$144.2 million.

Our Group's total shareholders' equity stood at HK\$219.8 million on 31 December 2004 as compared to HK\$340.9 million at the end of the previous year. The net decrease in equity was attributable to the loss reported for and net of capital raised during the year. In August 2004, 72 million of new shares were issued to ARTAR, a prominent investment conglomerate in Saudi Arabia, raising total net proceeds of HK\$23.7 million for development of international business and general working capital.

On 31 December 2004, our cash and bank balances were HK\$722.1 million as compared to HK\$664.5 million on 31 December 2003. 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 2004 remained healthy at 1.2 times, virtually unchanged from 2003.

Our total bank borrowings on 31 December 2004 decreased to HK\$223.2 million from HK\$341.9 million on 31 December 2003. The decrease in bank borrowings were mainly due to the fall in demand of margin financing from our clients.

In August, CFSG entered into a convertible note agreement with ARTAR for a consideration of HK\$40.5 million. Together with this convertible note of HK\$40.5 million, our ratio of our interest bearing borrowings to shareholders' equity was 1.2 on 31 December 2004 as compared to 1.0 on 31 December 2003. 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.

All of the Group's borrowings are in HK 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 2004, the Group was holding a portfolio of listed and unlisted investment with a total value of approximately HK\$75.5 million. During the year, a loss of HK\$23.8 million on trading of listed securities and commodities was recorded and an impairment loss in respect of non-performing investment of HK\$15.5 million was provided for the whole year.

As at 31 December 2004, leasehold properties at their carrying value of approximately HK\$65.7 million and bank deposits of HK\$36.8 million were pledged to secure a bank term loan and general banking facilities granted to the Group.

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

In November 2004, our Group entered into a provisional sale and purchase agreement to sell an investment property located in Hong Kong at a consideration of HK\$45.0 million. The transaction was completed in March 2005. Save as aforesaid, our Group did not make any material acquisitions or disposals during the year ended 31 December 2004. There was no significant investment held during the year. We do not have any future plans for material investments or capital assets.

Subsequent to year end, the Group's retail business division (Pricerite), issued 83 million of new shares to two investors and total net proceeds of HK\$23.2 million were raised in April 2005 for its general working capital. In April 2005, Pricerite entered into a placing agreement, pursuant to which 223 million of new shares will be issued to investors upon completion with a view to raising total net proceeds of approximately HK\$65.7 million for the expansion of the retail business of Pricerite in China and as its working capital. The Group's shareholdings in Pricerite will be reduced by 13.57% immediately after the placing.