Financial Review

INVESTMENT PHILOSOPHY

The Group's investment philosophy is to secure stable returns for our shareholders through a prudent, forward-looking approach. To achieve this, the Group has thoroughly planned the development of a business park portfolio that generates steady income inflow, and a real estate portfolio and synergetic technology services that bring in recurrent fee-based income. We anticipate that the combination of these different income sources will yield stable earnings and bring about substantial business growth for the Group in future.

RESULTS OF 2001

Our business park and technology service businesses are new start-ups and it will take some gestation period before they mature and bring profit contributions to the Group.

Our real estate portfolio, during the year under review, was largely Hong Kong based. The sluggish performance of the Hong Kong property market coupled with a depressed economy of Hong Kong caused a steep decline in the selling prices of Hong Kong properties. Like most other Hong Kong developers, we were faced with diminution of value of our real estate portfolio. Overall, the Group sustained a loss position for 2001.

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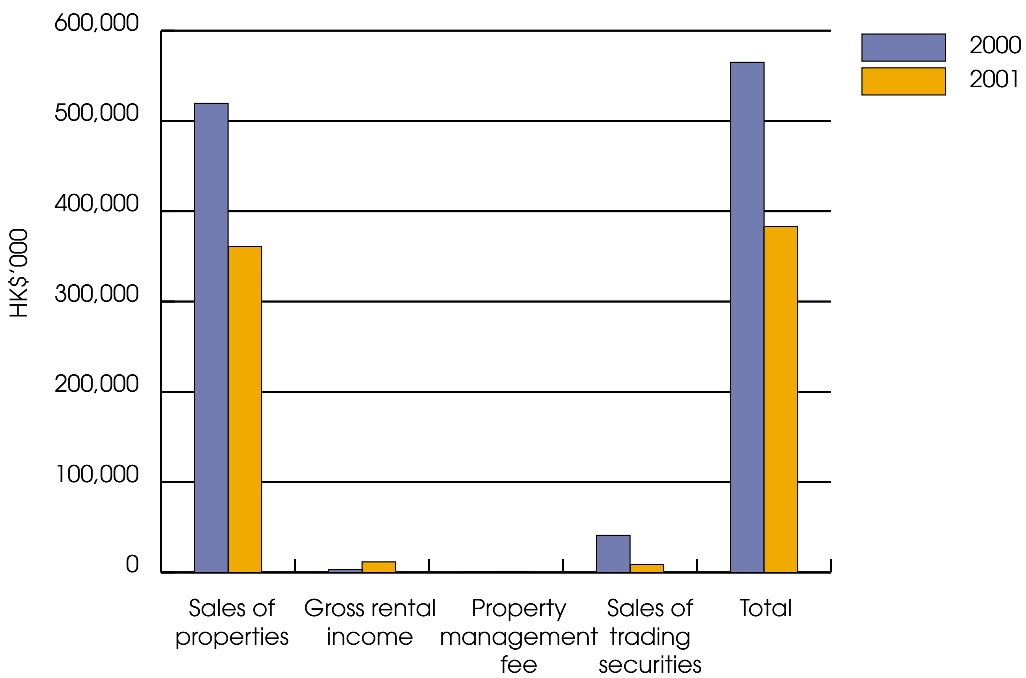
OVERALL PERFORMANCE

The Group's loss attributable to shareholders was HK$397 million, which was 11% higher than 2000 (2000: HK$356 million). On a per-share basis, the Group recorded loss of HK23.8 cents, a slight increase of 5% over that of last year.

Turnover reduced by 32% to HK$383 million from HK$565 million, primarily due to the decrease in sales of Hong Kong properties.

Turnover by category



Income from property sales remained the principal business of the Group and accounted for 94% of the total turnover. The remaining 6% was derived from gross rental income, property management fee and sales of trading securities.

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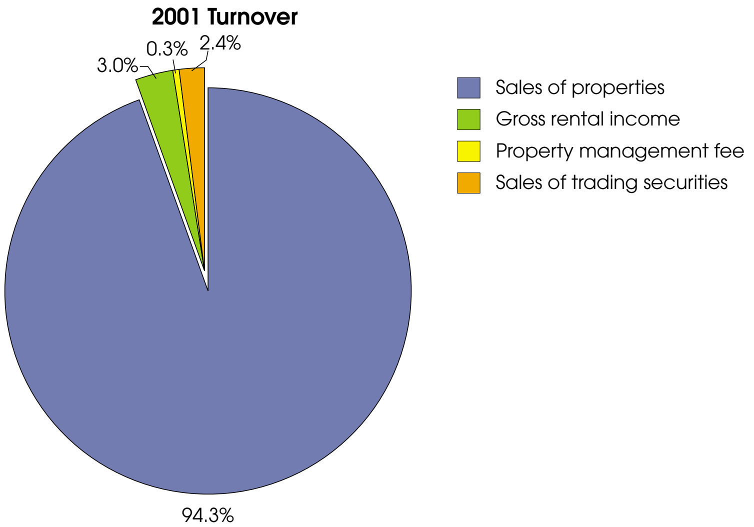

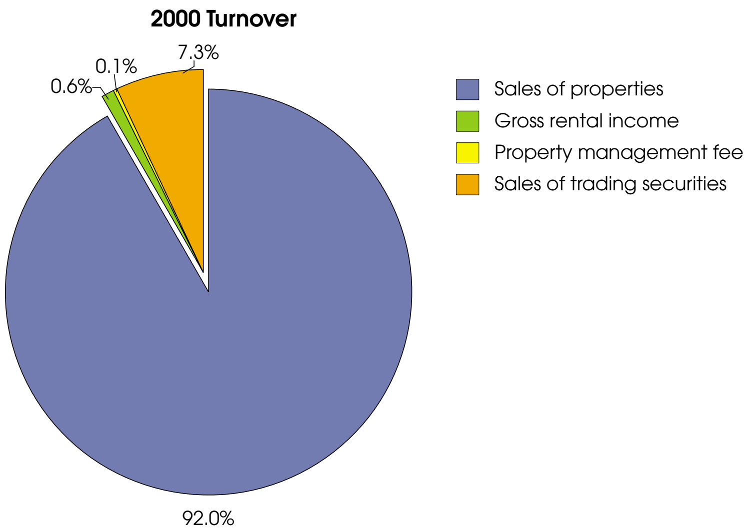

Provisions made for operations increased by approximately 202% to HK$243 million from HK$81 million. The Group made a provision of HK$236 million or approximately 97% of the total provisions in relation to property projects, reflecting the impact it had on the Group's performance as a result of the sluggish performance and keen competition of the Hong Kong property market.

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Finance costs increased from HK$24 million to HK$42 million as a result of completion of more projects which in turn resulted in less borrowing costs being capitalised. Finance costs before capitalisation were reduced by 17%, which was due mainly to the decline in interest rate and the use of lower cost financing.

BUSINESS SEGMENTS

Property

The property segment remained the key contributor to the Group's revenue. Turnover of the property segment was HK$367 million or 96% of the total turnover. Property sales, rental and management fee amounted to HK$361 million, HK$5 million and HK$1 million respectively. The number of units sold was 190 in 2001 compared to 179 in 2000. Despite the increase in the number of units sold, sales contributions were offset by the decline in the average selling prices of Hong Kong properties resulting in a loss of HK$253 million, of which HK$236 million was provisions made.

Business Park

The Group's first business park project which is located in Shenzhen, Mainland China commenced its Phase 1 operation in March 2001. Since the project is a new start-up, lettable area of Phase 1 was only 5% of the overall project. Turnover for 2001 amounted to HK$7 million. A loss of HK$1 million was incurred for the year. We anticipate substantially improved results as the occupancy rate had reached 86% as at end of 2001 and construction of Phase 2, which is 5 times larger than Phase 1, commenced in early 2002.

Other Operations

Other operations of the Group included investment in infrastructure investment, investment in information technology projects, and securities trading and investment business. Since some of these businesses do not perform in line with the Group's business strategies, the Group has commenced divestment of these businesses. During the year, the Group disposed of all the remaining trading securities for HK$9 million and some non-trading securities for HK$16 million. After review of its IT portfolio, the Group made a provision of HK$7 million.

Overall, a profit of HK$8 million was recorded by this business segment.

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GEOGRAPHICAL SEGMENTS

Hong Kong

Geographically, Hong Kong remained the principal location for the Group's turnover and loss contributions which constituted 98% of the Group's results. Turnover decreased by 33% to HK$376 million from HK$565 million and a provision of HK$236 million for Hong Kong property projects was made. Overall, a loss of HK$295 million was recorded.

Mainland China

Lease of the Group's business park space in Shenzhen, Mainland China since its commencement of operation in March 2001 generated a turnover of HK$7 million.

ASSETS

The value of the Group's total assets fell by 13% to HK$2,441 million as at 31st December 2001. The reduction was due to a decrease in current assets of HK$390 million as a result of decrease in properties held for sale and under development.

Assets by business segments

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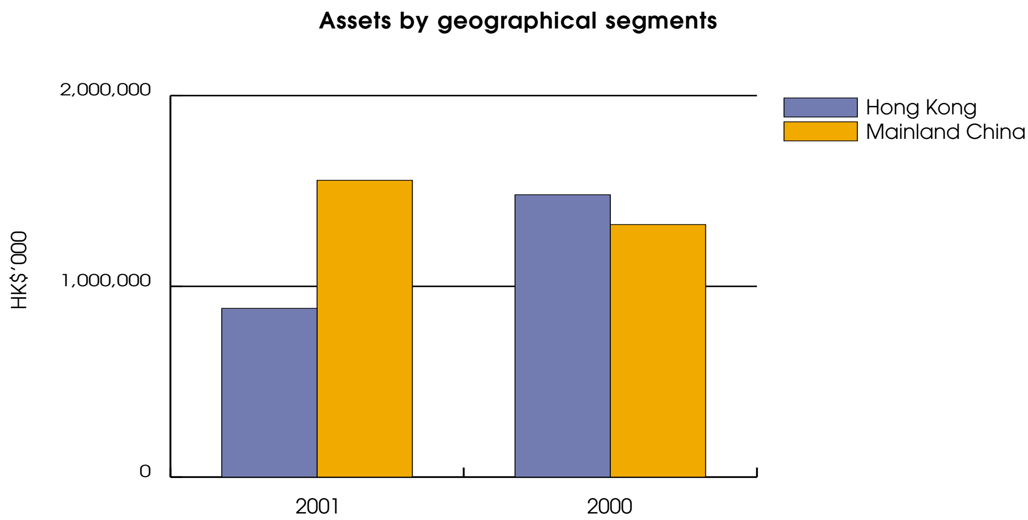

The property segment constituted the majority of the Group's assets but its share has reduced from 66% in 2000 to 57% in 2001. As the Group has expanded its business focus to cover business park development, there was an increase in investment in business park segment in 2001. The overall proportion by asset size of business park has increased from 26% in 2000 to 34% in 2001.

As the Group has shifted its business focus to Mainland China, total assets held in Mainland China have increased 18% from HK$1,324 million to HK$1,556 million. To finance the growth of its Mainland business, the Group has secured additional RMB denominated borrowings to reduce currency exposure. During the year, RMB borrowing has increased from HK$75 million in 2000 to HK$182 million in 2001. The remaining borrowing is denominated in HK dollar.

SHAREHOLDERS' FUNDS

The Group's investment revaluation reserve increased by HK$20 million, which was attributable to the valuation surplus of its business park project. Taken into account the HK$397 million loss for the year, shareholders' funds fell 24% to HK$1,221 million as at 31st December 2001. On a per-share basis, shareholders' funds fell to HK$0.7 in 2001 from HK$1.0 in 2000. Compared with the total assets of HK$2,441 million, shareholders' equity was 50% of the total assets.

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LIQUIDITY AND CAPITAL RESOURCES

As at 31st December 2001, the Group's total borrowings including convertible bonds were HK$740 million compared to HK$798 million in 2000. The Group's cash and bank deposits balance increased to HK$133 million from HK$99 million in 2000. The Group's net debt therefore stands at HK$607 million as compared to HK$699 million in 2000, representing a decrease of HK$92 million.

Despite reduction in net borrowings, the Group's gearing ratio (total borrowings divided by shareholders' fund) excluding convertible bonds increased to 55% in 2001 from 46% in 2000 as a result of the reduction in shareholders' fund. Gearing ratio including convertible bonds increased to 61% in 2001 from 50% in 2000. Net debt divided by total shareholders' funds for the year also increased to 0.50 in 2001 from 0.44 in 2000.

Secured versus unsecured borrowings

The majority of the Group's borrowings were on a project finance basis. To increase the flexibility of the Group's resources, the Group intends to re-structure its debts to the corporate level in 2002. As at 31st December 2001, about 76% of the total borrowings were on a project finance basis, a decrease of 2% from 78% of 2000.

Short-term versus long-term borrowings

The maturity profile of the Group's convertible bonds and borrowings is set out in notes 23 and 24 to the financial statements respectively and is summarised in percentage term below.

	2001	2000
	%	%
Within one year	**75**	77
In the second year	**25**	19
In the third to fifth year	**–**	4
	100	100

At present, the Group's borrowings are largely on a short-term basis with a majority of its borrowings repayable within two years. In the short-term, the Group has sufficient facility to maintain its current operations as income generated from property sales will be channelled into loan repayment. Subsequently, it is the Group's policy to lengthen its debt maturity profile by refinancing its short-term debts with medium-term to long-term borrowings to match the cycle of its investment portfolio.

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FINANCIAL MANAGEMENT

Foreign currency risk

Consideration has been made to the potential exposure of foreign currency risk that may arise from the Group's investments in Mainland China. Although RMB against HK$ has been relatively stable in the past, the Group aims to further mitigate this potential risk by increasing its RMB funding for its China projects as much as possible. During the year, the Group increased its RMB financing for its two major projects in Mainland China, namely Beijing Scenic Place and Vision (Shenzhen) Business Park, where cashflows are denominated in RMB currency.

The overall change in denomination of the Group's total borrowings (including convertible bonds) between 2000 and 2001 was summarised below:

	2001		2000	
Denomination of borrowings	**HK$ million**	**%**	HK$ million	%
In HK$	**558**	**75%**	723	91%
In RMB	**182**	**25%**	75	9%
Total	**740**	**100%**	798	100%

The relative proportion of RMB borrowings had increased over the past year. However, with the Group's new business focus in Mainland China, it will be the Group's intention to further explore RMB financing opportunities, and employ limited or non-recourse project finance, where available.

Interest rate risk

The Group is exposed to changes in interest rate fluctuations to the extent that they affect the cost of funds for floating rate borrowings. About 66% (2000: 82%) of the Group's total borrowings are on a floating rate basis, whilst the remaining 34% (2000: 18%) are fixed rate borrowings. The Group will closely monitor the global interest rate movement and take necessary action to hedge against any foreseeable interest rate exposure, if necessary.

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Overall

To strengthen its financial position and reduce its gearing, the Group aims to diversify its funding sources through the capital markets in addition to debt financing.

In due course, it is the Group's financial policy to progressively lengthen its debt maturity profile, manage interest rate and currency profile of its debt portfolio, as well as diversify its funding base so as to reduce risks, lower its gearing and improve its liquidity. These measures will put the Group in good stead for its future expansion plans.

PLEDGE OF ASSETS

The Group's bank loans, overdrafts and other loans were secured by certain investment properties, completed properties held for sale and under development with carrying values of HK$752 million (2000: HK$972 million) and bank balances of HK$44 million (2000: HK$51 million). The shareholders of the ultimate holding company also issued letters of undertaking to secure a bank loan of HK$150 million granted to the Company, of which HK$100 million was utilised as at 31st December 2001.

CONTINGENT LIABILITIES

As at 31st December 2001, the Company issued guarantees to the extent of HK$393 million (2000: HK$800 million), of which HK$383 million (2000: HK$569 million) was utilised in respect of bank and other borrowings granted to the subsidiaries.