

On behalf of the Board of Directors, I would like to present the activities and the results of the Group as follows:-

BUSINESS REVIEW AND PROSPECTS

Results

During the year ended 31 December 2001, the turnover of the Group decreased by approximately 26.8% to HK\$194.4 million as compared to that of HK\$265.5 million during the 9 months ended 31 December 2000 commencing from the financial year end date of the Group which was changed from 31 March to 31 December. This was mainly due to decrease in the sales of trading securities (this reduction mirrors the relatively quiet Hong Kong stock market in general) by 48.5% to HK\$113.4 million for the year from HK\$220.3 million during the corresponding 9 months ended 31 December 2000 despite the aggregate increases in interest income, brokerage fees and commission income for the current year by 91.5% to HK\$78.7 million in total as compared to that of HK\$41.1 million during the 9 months ended 31 December 2000. The loss attributable to shareholders of HK\$331.6 million represents a decrease of 10.2% as compared with a loss of HK\$369.1 million for the last financial period ended 31 December 2000. The loss per share was HK1.7 cents as compared with HK4.2 cents for the corresponding period ended 31 December 2000.

Review and Outlook

During the year, faced with the previously unexperienced and continuous arduous economic downturn in Hong Kong, the Group has continued to focus its efforts on the core business of property investment and provision of brokerage and financial services. The Group has further pursued to expand the capability and scope of business in the promising Financial Services sectors through the issuance of new shares in the Group's financial-service arm, Hennabun Management Inc. (the "HMI Group") to a new independent shareholder and the Group. As at 31 December 2001, approximately 81.08% of the issued share capital of the HMI Group was held by the Group. During the year, about 46.9% of the Group's turnover was contributed by HMI Group. For the businesses of provision of brokerage and financial services, an operating profit (before provision of bad and doubtful debts) of HK\$29.2 million was contributed therefrom during the year under review. In view of the current uncertain and harsh economic situation, the Board has taken conservative and necessary provisions for bad and doubtful debts for the year amounting to HK\$119.5 million. For the property investment segment, due to the persistent drop in the level of rental and occupancy rate in the property market, excluding the loss on disposal of investment properties of about HK\$2.5 million and the net deficit arising on revaluation of the investment properties of about HK\$25.3 million, an operating loss (before financial costs) of HK\$7.0 million was incurred during the current year. In the current year, the adoption of certain revised and newly issued Statements of Standard Accounting Practice by the Group resulted in a number of changes in the Group's accounting policies in respect of which impairment losses of property, plant and equipment amounting to HK\$115 million has been recognized in full as at 31 December 2001. For the investment in trading securities, due to the weak performance of the local stock market during the year and the bearish sentiment on the Hong Kong's economy especially after the 911 terrorist attacks, the activity in the investment in trading securities had been substantially decreased. The result is a decrease in turnover from HK\$220.3 million for the period ended 31 December 2000 to HK\$113.4 million for the current year and the operating loss thereof has been narrowed to HK\$25.3 million for the current year as compared with the loss of HK\$130.8 million for the corresponding period ended 31 December 2000. As to the High-Technology

sectors, an operating loss of HK\$18.6 million was incurred during the year. As a result of the continuing soft market sentiment and uncertainty of the internet businesses, the Group has captured an opportunity to sell its investment in an associate, Cupac Technology Limited, at an insignificant gain during the year. The Group will mainly focus on the development of internet trading of securities while taking a more cautious view to pursue new opportunities in the high-tech area until there is a confirmed solid recovery.

In view of the economic downturn in the United States of America especially after the 911 terrorist attacks, which has significantly increased bearish sentiment in the global business environment and encumbered the worldwide economy, Hong Kong's recovery has been slowed in materializing and the timing has been pushed back substantially. The continuous rise in unemployment rate is expected to further reduce consumer confidence. Business enterprises in Hong Kong are confronted with a deteriorated economy in terms of business opportunities. As such, the Group will try all effort including rallying our business strategy to focus on our core business of property investment and provision of brokerage and financial services. The Company will continue to take a cautious approach to consolidate our existing position while waiting for the recovery of economy and grasping each opportunity to realize those non-performing assets with a view to enhancing their productiveness and reducing the burden of serving the debts repayment so as to get past this difficult time whilst maintaining an open attitude to look for prospective attractive investment opportunities.

Liquidity and Capital Resources

During the year, the Company's financial position has continued to improve and the Group's balance sheet has been strengthened by the completion of 5 share placements and the issuance of 1,163,000,000 new shares arising from exercise of employee share options, raising a total additional equity of approximately HK\$179.6 million (before issue expenses) and HK\$12.1 million respectively. Besides, during the year, the Group issued 3-year convertible notes (the "Notes") with a total principal amount of HK\$75.6 million to a number of independent third parties, which bear interest at 7.5% per annum and can be converted into shares of the Company at conversion prices, subject to adjustment, ranging from HK\$0.01 to HK\$0.014 per shares depending on the time of conversion during the period from the date of issue of the Notes up to 14 days before (excluding) the maturity date. During the year, notes with an aggregate principal amount of HK\$11.8 million were converted into shares of HK\$0.01 each of the Company at a conversion price of HK\$0.01 each.

As at 31 December 2001, the Group's total shareholders' funds amounted to HK\$428.4 million compared with HK\$543.6 million at 31 December 2000. As at 31 December 2001, the Group had net current assets of HK\$232.3 million including cash and bank balances of HK\$34.2 million compared with net current assets of HK\$82.8 million including cash and bank balances of HK\$75.0 million at 31 December 2000. As at 31 December 2001, the Group's gearing ratio and current ratio were 162.1% and 1.56 times respectively compared to that of 109.2% and 1.2 times respectively at 31 December 2000.

As at 31 December 2001, the Group has bank loans and overdraft of HK\$383.6 (31 December 2000: HK\$347.0 million), other loans of HK\$246.8 (31 December 2000: HK\$246.8 million) and HK\$63.8 million convertible notes maturing in July 2004.

As most of the Group's transactions and bank deposits were denominated in Hong Kong dollars, the Group's exposure to foreign exchange risk was minimal.

Pledge of Assets

As at 31 December 2001, certain assets of the Group with an aggregate carrying value of HK\$446.4 million (31 December 2000: HK\$576.5 million) have been pledged to banks and other financial institutions to secure credit facilities granted to the Group. In addition, interests in and loans to two associates were pledged to secure an outstanding loan and interest repayments payable to a third party.

Contingent Liabilities

The Company has given a guarantee to a third party to the extent of HK\$53 million in respect of a convertible note of HK\$53 million issued by a former subsidiary. As at 31 December 2001, as no conversion right was exercised, the whole principal sum was due for redemption. The former subsidiary is negotiating with the noteholder for extending the maturity date of the convertible note and the Company is negotiating with them for releasing the guarantee.

Employees

As at 31 December 2001, the total number of employees of the Group was 71. The Group remunerates its employees based on their performance, working experience and prevailing market standards and reviews their remuneration annually. Staff benefits include a medical insurance coverage, provident fund and a share option scheme. As at 31 December 2001, the number of share options outstanding remained the same as that as at 31 December 2000.

Prospects

Although the economy in Hong Kong continues to be affected by global downturn in the short term and gradual economic recovery in the US would not be immediately felt to benefit Hong Kong, with the re-positioning of Hong Kong's role in the context of China's accession to the World Trade Organisation, the Group is confident that recovery in the US and other territories and continuing economic growth in China will benefit Hong Kong in the years ahead and the Group will endeavor to take advantage of such up-turns.

APPRECIATION

I would like to take this opportunity to thank all the directors and staff for their contribution and support to the Group during the year.

Chuang Yueheng, Henry
Chairman

Hong Kong, 11 April 2002