II Management Discussion and Analysis

OVERALL PERFORMANCE

The Group's audited consolidated loss after taxation and minority interests for the year ended 31st December, 2001 amounted to HK$372,540,000, compared with an attributable loss of HK$434,840,000 (as restated) in 2000. The disappointing results were mainly due to the substantial provision for diminution in value of certain properties amounting to HK$391,059,000 of which HK$61,272,000 was attributable to the provisions made by the associated companies of the Group. The provisions are required to reflect the declining trend of the Hong Kong property market during 2001. Excluding this provision for diminution in value of the properties, the result for the current year would show a profit attributable to shareholders of HK$17,399,000. Loss per share amounted to HK33.1 cents compared with a loss of HK38.6 cents (as restated) per share in the previous year.

OPERATION REVIEW

Property Development

During the year, the Hong Kong property market remained weak. Prices for residential units dropped slightly while the market was dominated by sales of newly completed units due to competitive price, attractive payment terms and lower mortgage rates. Activity in the secondary market was relatively low. During the year under review, the Group completed the development of Hilary Court and successfully sold all the units with the exception of two duplex apartments. In addition, the Group continued the construction of development projects including Delight Court in To Kwa Wan and Merit Place in Tai Po. Construction works of these two residential development projects will be completed later this year. In Shanghai, the Group obtained the approval for the development plan of Phase III of Gateway Plaza.

Property Investment

Due to the unfavourable economic environment, demand for office buildings weakened during last year. As a result, the Group's rental income from Manulife Tower, its principal investment property, decreased due to lower rental upon renewal of leases and higher vacancy rate. The average occupancy rate for all the investment properties of the Group is around 85%.

Property Management

Parkland Property Management Limited ("Parkland"), the Group's property management arm, continued its expansion path in Hong Kong. During the year, Parkland successfully extended its scope of business to include the provision of rental collection service to the Hong Kong Housing Authority.

Other Business

Saggio Holdings Limited ("Saggio"), the Group's associated company engaging in the distribution of office and computer accessories in the Asia Pacific region, raised additional capital by issuing new shares in two tranches to existing shareholders for cash for funding its regional operation. As a result, the Group's interest in Saggio was diluted from 40.7% to 34.7%. Due to unfavourable economic environment, Saggio was unable to achieve profitability during the year.

Disposal of a Subsidiary

In May last year, the Group completed the sales of its interest in Shanghai Square for a total cash consideration of approximately HK$341 million which was utilized to substantially reduce the Group's gearing.

FINANCIAL REVIEW

Liquidity, Finance Resources and Gearing

The Group's net borrowings at the end of 2001 amounted to HK$348.6 million (2000: HK$832.4 million), with a gearing ratio of 24% (2000: 45%) based on shareholders' equity of HK$1,466.1 million (2000: HK$1,840.3 million). The Group's borrowings are subject to floating interest rates. Of the total amounts of bank borrowings and other borrowings outstanding as at the year end, 24% (2000: 9%) are repayable within the next year, 28% (2000: 55%) repayable within the second year with the remaining balance repayable in the third to fifth years inclusive. The Group does not have significant foreign exchange exposure as all of the Group's borrowings are in Hong Kong dollars. Taking into account available credit facilities, cash in hand and recurring cash flows from its core investment property portfolio, the Group has sufficient working capital for its present requirements.

Operating Expenses

During the year, total operating expenses decreased by 21% to HK$33.4 million (2000: HK$42.3 million).

Capital Commitments

As at 31st December, 2001, the Group had capital commitments totalling HK$59.6 million (2000: HK$87.8 million). These commitments will be funded primarily from related project committed loan facilities, proceeds on sale of completed properties, rental income from the investment properties and cash on hand.

Management Discussion and Analysis

Charges on Assets

As at 31st December, 2001, the secured bank loan facilities granted to the Group were secured by mortgages over the Group's properties with an aggregate carrying value of HK$390 million (2000: HK$2,433 million) and charges over the shares of the property-owning subsidiaries.

Contingent Liabilities

As at 31st December, 2001, the Group provided guarantees for banking facilities granted to an investee company in the amount of HK$1 million (2000: HK$130 million).

PERSONNEL

The total number of employees of the Group as at 31st December, 2001 was 553, of which 56 were administrative staff. Remuneration packages are reviewed by the Group from time to time. In addition to salary payment, the Group provides a full range of fringe benefits to employees which include retirement benefits (defined contribution), medical scheme (outpatient, hospitalization and dental), education sponsorship and subsidy, etc. A wide range of training programmes on language, computer, writing skills, communication skills, supervisory and management skills and industrial safety training courses are organized by the Training and Development Department of Ryoden (Holdings) Limited.

Share options may be granted to directors and employees of the Group to subscribe for shares of the Company in accordance with the terms and conditions of the Share Option Scheme approved by the shareholders of the Company at a Special General Meeting held on 1st September, 1992. During the financial year, no share options expired or were cancelled.

OUTLOOK

The Hong Kong property market is still going through a consolidation phase and the Group is not expecting a strong recovery in the local property market in the near future. Therefore, the Group will continue its prudent approach in selecting new projects and investments and focus on completing the development projects on hand and marketing of its investment properties.

In mainland China, the demand for residential units from local buyers is growing steadily as the economic situation improves and household income increases. The Group expects that the development of Phase III of Gateway Plaza will benefit from the increasing demand for residential properties in Shanghai. The Group has confidence in the long-term economic prospects of Hong Kong and mainland China.