

# Management Discussion and Analysis

The Directors wish to set out below the review of the Group's business activities for the year ended 31 December 2001 and the overview of the Company's objectives in the year ahead.

## Re-structuring

2001 was a dynamic year for the Group and it had undergone different restructuring measures in various forefronts in order to re-engine and re-fuel the Group back into a healthy and profitable position in the coming future.

During the year, new directors equipped with extensive management experiences and qualifications are invited to the board of the Company which thereby refresh the board with new ideas and further strengthen and diversify the board composition.

The board has also conducted a very detailed review over the business operations of the Group and has thereof identified certain loss making investments that has been or will be discontinued or divested gradually. The Group is able to retain thereby the necessary resources, both financial and non-monetary, within the Group such that the Group is capable to diversify in other industry or investment when opportunities arise. Apart from the investment side, the board is also actively consolidating the properties portfolio through re-development, disposal or leasing. The board considered that the properties investment activities would still be the core activity and major business segment of the Group. However, the Group will continue to unload under performed and heavy interest bearing properties and at the same time to identifying suitable properties and redevelopment opportunities for acquisition or participation.

The board has also opened the dialogue with the banks and debenture holder with a view of re-scheduling the terms and conditions of the loans or debentures such that the Group would have a chance to stay away from the high interest burden and giving space for it to recover from the economic recession and depressed properties environment in Hong Kong and the Asian region. In March 2002, the Company successfully reached a settlement agreement with the debenture holder and avoid the Company from the winding-up petition filed by the debenture holder in October 2001.

More stringent cost saving measures are implemented during the year and thereby reducing the expenditure of the Group to a more reasonable and justifiable level. The board will continue its effort in this area in the year ahead and at present the Group only retains 5 permanent staff in the Hong Kong office apart from the executive directors. The staff and directors are remunerated according to the nature of the job and market conditions.

## Acquisitions

During the year, the Company entered into agreements with third parties for the acquisition of entities participating in the broadband access business and the vehicle assembling business, which the directors believed that it would be good opportunities for the Group to diversify into such fast growing industries. After the year end, the Group decided not to pursue the two acquisitions as it did not completely satisfy with the due diligence review of the two operations. This reflect the more prudent and conservative approach now taken by the directors in selecting investment and in which new business to participate. The agreement regarding the investment in vehicle assembling business has been terminated and the board is currently negotiating with the sellers for the termination of the other agreement regarding the broadband access business in accordance with the terms of such agreement.

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## Corporate results

The Group posted a turnover of HK\$9,059,000 which represented a decline of 34% to the turnover in last year. The reduction was mainly brought by the lower rental value as a result of the disposal of properties during the year. Loss attributable to the shareholders was HK\$199,418,000 which already showed a substantial improvement from the loss in last year of HK\$563,688,000 owing to the restructuring measures implemented by the Group. The losses in the current year were mainly attributable to the financial cost of HK\$36,302,000 (2000: HK\$47,105,000) and the impairment losses and revaluation deficit over the properties portfolio of HK\$136,820,000 (2000: HK\$19,903,000).

## Financial resources and liquidity

The Group's total borrowings (excluding trade and other payables) amount to HK\$280,715,000 as at 31 December 2001 which represented a slight decrease of 8.4% from the total borrowings in last year of HK\$306,556,000. These total borrowings included bank loans of HK\$245,691,000 which are secured by charges over the properties of the Group. Following the execution of the settlement agreement with the debenture holder, the total borrowings would further reduce to HK\$263,360,000 after the conversion of part of the debts to equity. The board will further its negotiation with the banks in the same direction as the debenture holder and thereby improving the capital base as well as the liquidity of the Company.

The gearing ratio showed a substantial increase from 121% in last year to 519% in the current year as a result of the declining net assets value of the Group owing to the continue losses in these years. However, as explained in the last paragraph, the gearing ratio would be better off to 369% after the execution of the settlement agreement.

The current ratio is 0.55 which showed a reduction of around 21.4% from last year figure of 0.70. The current ratio would again be improved to 0.58 after the debenture conversion. Taking into consideration of the projected proceeds derived from the continue assets realization programme and the restructuring of bank loans together with the fund raising through right issues or placements, the directors are of the opinion that sufficient working capital are available to fulfill the financial obligations when they fall due and to meet the future funding requirements of the Group.

## Dividends

In view of the loss situation of the Company in the past few years, the board has resolved not to recommend the payment of any dividend for the year ended 31 December 2001 (2000: Nil).

## Prospects and outlook

The property market in Hong Kong remains highly depress in the year of 2001 as a result of the economic recession and inflated unemployment rate. Hong Kong unavoidably affected by the economic downturn in the United States and the Asia Pacific region and the sign of recovery is not as strong as expected. It is generally believed that the Hong Kong economy might take a longer period to regain the momentum.

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In view of the declining condition, the board will continue to take a very prudent approach in directing the Group in this difficult period. The consolidation of the existing business, investments as well as properties portfolio together with the restructuring of bank loans will remain the first priority of the Group in the coming year. On the other hand, the board will also identify any investment opportunity that may improve the profitability and financial position of the Group on a very caution manner, and thereby enhance the overall value of the Group and the shareholders as a whole. The board will also improve the capital base of the Company through right issues or placement from time to time if market situation allows.

With all the measures in place, the board is optimistic that the Group will be more solidly positioned and ultimately bear fruit from the foundations lay down as present. The board owes a lot of gratitude to the Group's bankers, creditors, management and staff for their continue support in such a hard time.

On behalf of the Board

**Ha Shu Tong**

*Managing Director*

Hong Kong SAR, 26 April 2002