Management Discussion and Analysis

FINANCIAL RESULTS

The Group recorded turnover of approximately HK$475 million representing an increase of 45% over last year. The increase was mainly contributed by the increase of properties sold in the second half of 2001 and consolidating the whole year turnover of AIC Asia International Services Corporation Group. The loss attributable to shareholders was approximately HK$670 million as compared with approximately HK$1,162 million for the preceding year. Loss per share was approximately 5 cents as compared with 8.7 cents for the preceding year. The said loss was significantly created by heavy interest burden, deficits on disposal of assets, revaluation of investment properties and development projects.

BUSINESS REVIEW

Despite the repeated interest rate reduction in the period under review, the property market sentiment remained weak and property investors and developers seemed lack of confidence. It appears a wise move for the management to reduce debts and cut expenditure as much to the fullest in order to optimize the benefits gained from the sluggish market.

Property and Hotel Business

Since the sale of the Group's interests in Pearl Seaview Hotel and Pearl Garden Hotel completed in January 2001, hotel operation business has discontinued. During the year, residential units in Shatin and Wanchai, remaining units in Pearl Vista at Sheung Shui together with 27th Floor and 2 car parking spaces of Pearl Oriental Centre have been disposed of. In December 2001, "Genesis" was sold by a mortgagee bank. As at 31st December, 2001, the occupancy rate of the Group's shops and offices space for let was 43%. A 25% drop as compared to last year was due to tenants engaged in internet and telecommunications businesses vacating their premises.

During the year, the Group disposed of its long-term investment in 15% interest in a joint venture company which owns certain portion of a shopping arcade named World Trade Plaza at Tsim Sha Tsui being the last significant long- term joint venture investment in the books of the Group.

Financial Business

The Group disposed of the Hontalie Commercial Building, which is a mortgaged loan asset under Margaux Finance Limited, in May 2001. Margaux Finance Limited is a wholly owned subsidiary of the Group engaged in money lending. After that, there is no significant money lending business operated by the Group. During the year, the business as investment advisor carried under Margaux Capital Asia Limited has also stopped.

Telecommunications and Internet Business

As a continued effort to rationalize the telecommunications and internet businesses of the Group, all internet portal operations in the PRC and the trunk radio business in Hong Kong have been suspended. The Group has also sold its investment in HKStock Limited and StockOnline Corporation Limited in order to further scale down investment in these respects.

PROSPECT

The management is pleased to advise that the Group is actively negotiating with various creditor banks. The construction works of the hotel project in Western District has recommenced in April 2002 and is expected to commence business in late 2002. With the increase in number of visitors from mainland China, the expected return from the Hotel is favourable. The Skyhigh also recommenced works in February 2002 and is expected to be completed in early 2004. The management shall consider the plan of presale of Skyhigh in second half year of 2002.

The management is confident that with the commencement of the hotel in Western District and Skyhigh projects, the Company will gradually recover and the overall liquidity position of the Company will be improved. 2002 will be a dynamic year for the Company and the Company will undergo different restructuring measures in order to put the Company back into healthy and profitable position.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December, 2001, the Group's total liabilities were approximately HK$1,424 million. During the year, the Group has expedited the disposal of its properties in a bid to reduce its bank debts. As a result, total bank indebtedness had reduced from approximately HK$1,612 million as at 31st December, 2000 to approximately HK$1,169 million as at 31st December, 2001. As at 31st December, 2001, the gearing ratio of the Group, calculated as total bank debts divided by total assets, was approximately 79%.

Majority of the Group's bank borrowings are secured mortgage loans while the remaining is overdraft guaranteed by the Company. Interest is charged on a Hong Kong Dollar Prime Rate plus basis. As disclosed in Note 2 to the Group's audited financial statements, the Group has defaulted in bank loans repayment and as a result all bank loans were classified under current liabilities which are repayable on demand. The management is endeavouring much effort to negotiate with the banks for debt restructuring to facilitate the financing and working capital requirements of the Group.

The bank borrowings are mainly made in Hong Kong currency with a minority portion denominated in US currency. Due to the prevailing pegged rate system, the management considers that exchange rate fluctuation does not pose a significant risk to the Group and no hedging arrangement is required in this respect.

Cash and bank deposits as at 31st December, 2001 was approximately HK$10 million. Working capital of the Group was mainly sourced from proceeds from disposal of assets, rental income and shareholders' support.

CAPITAL STRUCTURE

There had been no change in capital structure of the Group during the year. At the end of 2001, all of the options granted to the executive directors of the Company and employees of the Group that have not been lapsed remain unexercised.

PLEDGE OF ASSETS

The Group has pledged its properties with an aggregate book value of approximately HK$1,412 million to secure bank overdrafts and loans.

CONTINGENT LIABILITIES

There is no significant contingent liability of the Group as at 31st December, 2001.

EMPLOYEES

As at 31st December, 2001, the total number of employees of the Group was approximately 250. The Group continues to reward its staff with a reasonable remuneration package which includes medical insurance, retirement benefit and an employee share option scheme.