



BUSINESS REVIEW

For the year under review, the Group recorded a consolidated turnover of HK\$258.3 million, representing a drop of 50.7% from HK\$524.3 million in the previous year, and a net loss of HK\$459.0 million.

Dampened by the September 11 terrorist attack and the slowdown in the global economy, the local business environment remained difficult during the year under review. The property market remained sluggish and demand for residential units was stagnant due to the continuous weakening of consumer confidence. In addition, with keen competition in the building materials industry, sales price of ceramic tiles has been continuously under pressure. As a result, turnover from trading of building materials reduced by 8.6% to HK\$257.1 million. Considering the unfavourable local market conditions, the Group continued its efforts in expanding its revenue base in the overseas market. The Group's business in the United States progressed well and contributed to the Group's turnover; sales to Home Depot, a reputable home improvement retailer in the United States, amounted to HK\$28.8 million for the year, a fivefold jump from sales in the previous year. We are optimistic that sales to the United States will continue to achieve steady growth.

Share of loss of associates for the year amounted to HK\$88.2 million, a substantial portion of which could be attributed to the consolidated loss of Skynet (International Group) Holdings Limited ("Skynet International"), a former associate of the Company. The financial results of Skynet International were affected by the sluggish property market and the depressed Internet industry. Interests in associates reduced from HK\$133.2 million in the previous year to HK\$3.9 million this year, which was attributable to, inter alia, the reclassification of Skynet International as investments in securities in March 2002 since the Group has been in default of repayment of certain liabilities and most of the shares of Skynet International held by the Group have been pledged to a trade creditor and can be sold at the creditor's discretion. These investments in securities have been set off an amount of HK\$17.3 million due to such trade creditor based on the estimated fair value of these securities as at 31 March 2002.

During the year, the Group made an allowance for bad and doubtful debts of HK\$93.7 million. Taking a prudent approach, a 3% provision was made for accounts receivable which had been overdue for less than one year and full provision was made for accounts receivable which had been overdue for more than one year.

The Group recognized impairment losses on property, plant and equipment of HK\$47.7 million and on factory under construction of HK\$11.9 million for the year, which was in line with the Group's strategy to enhance its cost effectiveness by streamlining its production processes, closing redundant operations and concentrating its production in areas with lower production costs. Write-down of properties under development held for sale situated in Hong Kong amounted to HK\$43.3 million, as a result of the continual downturn in the local property market.

The Group made an allowance of HK\$60.5 million in respect of amounts due from associates, which had been loss making during the year under review, and the chance of recovery of such outstanding amounts is remote. An impairment loss of HK\$24.4 million was also recognized on the Group's interest in an associate which has investment in a highway in the People's Republic of China ("PRC").



The Group made a provision for an onerous contract of HK\$23.4 million during the year, which was related to a put option granted to a third party in prior year to require the Company to purchase certain shares in Skynet Limited, a 64.9% subsidiary of Skynet International as at 31 March 2002. During the year, the put option was assigned by the third party to a company beneficially owned by the substantial shareholder of the Company.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2002, the Group had net current liabilities of HK\$298.0 million (2001: net current liabilities of HK\$31.1 million) and a current ratio of 0.3 (2001: 0.9). Cash, bank balances and time deposits as at 31 March 2002 were HK\$19.4 million (2001: HK\$23.9 million). Gearing ratio which is expressed as a ratio of total liabilities and minority interests to shareholders' funds was 1.6 as at 31 March 2001. No calculation of gearing ratio as at 31 March 2002 has been made as shareholders' funds are negative as at 31 March 2002.

Bank and other borrowings (including bank overdraft) as at 31 March 2002 amounted to HK\$273.5 million (2001: HK\$286.9 million), of which HK\$267.5 million was due within one year from the balance sheet date and HK\$6.0 million was due after one year. All these borrowings were interest bearing, of which HK\$155.3 million carried fixed interest rates ranging from 7% to 9.8% and HK\$118.2 million carried floating interests. Borrowings were mainly denominated in Renminbi, United States dollars and Hong Kong dollars while cash and cash equivalents were mainly held in Hong Kong dollars and Renminbi. Exchange rate fluctuations had no material impact on the Group during the year. The Group has utilised foreign exchange contracts to hedge against the exchange rate risk for its purchases during the year.

A convertible loan of US\$12 million was advanced from an independent third party to a subsidiary of the Company. As disclosed in the annual report of the Company for the year ended 31 March 2001 and the interim report of the Company for the six months ended 30 September 2001, the Group failed to repay certain part of the convertible loan, resulting in the whole outstanding principal sum of US\$11.9 million technically repayable on demand. The Group is also in breach of a covenant in respect of certain banking facilities. The amount of such banking facilities utilised was HK\$29.7 million as at 31 March 2002. The Group has confirmed with the bank in principle for the restructuring of the borrowings.

PLEDGE OF ASSETS

As at 31 March 2002, the Group pledged certain land and buildings, motor vehicles, plant and machinery with an aggregate carrying value of HK\$110.8 million (2001: HK\$163.5 million) to secure the banking facilities granted to the Group. The Group also pledged certain land and buildings in Hong Kong with an aggregate carrying value of HK\$6.8 million (2001: Nil), certain investments in securities with market value of HK\$17.3 million (2001: Nil) and all issued shares of two wholly owned subsidiaries (2001: Nil) to secure other loan of HK\$60 million and interest thereon and an amount due to a trade creditor.



CONTINGENT LIABILITIES

As at 31 March 2002, the Group's contingent liabilities were HK\$15.0 million (2001: HK\$50.7 million), representing corporate guarantee given to bankers in respect of banking facilities utilised by an associate of HK\$10.3 million, interests on overdue loan unprovided of HK\$4.2 million and other corporate guarantee given in lieu of utility deposit of HK\$0.5 million.

EMPLOYEES AND REMUNERATION POLICIES

The Group had approximately 630 employees as at 31 March 2002. The Group's remuneration policies are in line with prevailing market practices and formulated on the basis of performance and experience of the employees. Training is also provided to improve the calibre of the staff.

The Company maintains a share option scheme and no share options were granted or exercised during the year.

PROSPECTS

In view of the uncertain outlook of the United States economy, the rising local unemployment rate and the sluggish market sentiment, the Group expects that the property market will not recover in the near future and has been exploring new business opportunities that offer growth and development potentials. As announced on 31 May 2002, the Company has entered into a non-binding letter of intent with an independent third party in relation to a possible investment in natural gas related projects. The proposed development and construction of natural gas pipeline are located in the Beihai Guangxi Zhuang Autonomous Region (北海市廣西壯族自治區), the PRC. No terms have yet been agreed upon between the parties. As announced on 7 June 2002, it is expected that the development of natural gas related projects may require approximately HK\$250 million, which will be funded by the proposed subscription ("Subscription") of 20,000,000,000 new shares of the Company at HK\$0.01 per share by China Strategic Holdings Limited and the proposed placing ("Placing") of 25,000,000,000 new shares of the Company at HK\$0.01 per share by Tai Fook Securities Company Limited to independent investors on a best efforts basis. Assuming that all the 25,000,000,000 new shares are successfully placed and provided that the conditions of the Subscription and the Placing can be fulfilled and the Subscription and the Placing can be successfully completed, the Group will be able to receive an estimated net proceed of approximately HK\$440 million. These funds will strengthen the financial position of the Group and help the Group to capture new opportunities and meet challenges ahead.

APPRECIATION

On behalf of the Board, I would like to extend my sincere thanks and appreciation to all our staff for their hard work and commitment and to our bankers, customers, suppliers and shareholders for their continued support.

By Order of the Board
Leung Kwok Wa
Executive Director

Hong Kong, 12 July 2002