BUSINESS REVIEW

The Group's turnover for the year was HK$44,625,000, representing a decrease of 9% over the same period of last year. Turnover was mainly derived from the trading of air-conditioning and mechanical equipment and provision of engineering related services, this business showed a slight improvement over the same period of last year, drop in turnover was reported by the Group's other businesses, leading to a drop in the total turnover. During the year, the Group recorded a loss of HK$59,019,000, an improvement of 62% compared with last year's result. The loss for the year is mainly due to the loss on disposal of several subsidiaries of HK$11,373,000, deficit arising on revaluation of investment properties of HK$2,500,000 and the impairment loss arising on the properties under development of HK$21,843,000.

This is a year of re-engineering of business activities of the Group. In October 2001, Lunghin Enterprise Inc. ("Lunghin"), of which the new chairman of the Group Mr. Tse Cho Tseung is the sole shareholder, acquired 448,503,921 shares in the Company and thus becomes a substantial shareholder of the Company. Continuous efforts have been made to dispose of non-core business with less controllable interest and investments or assets with less productivity to the Group in order to lower its leverage and to conserve cash for future development.

Property Development

Beijing Project

The Group's 100% shareholding of Long River Development Limited ("Long River") as a 80% stakeholder of a development project in Beijing ("Beijing Project") has resulted to a pre-tax loss of HK$17,614,000 for the current year. Due to the substantial capital requirement for the continuation of the Beijing Project and to avoid having to sustain further losses from the project, the Group has disposed of its interest in the entire project at a cash proceed of HK$15,000,000 in October 2001.

Sheung Wan Project

The Group owns 60% interest in a property development project in Sheung Wan ("Sheung Wan Project"), which is to be offered for sale soon under the name Talon Tower. The superstructure construction for the project has been completed and the occupation permit is expected to be ready by September 2002. The Group expects to offer the units for pre-sale in the coming months and the proceeds will be used to repay its bank loan so that the Group's liquidity position can be improved.

Information Technology

Following the operation stoppage of Value-Net Limited ("Value-Net") of which the Group holds an aggregate 30% interest and the subsequent legal action against Mr. Cheng Yuk Kuen ("Mr. Cheng"), the high court, in March 2002, has ordered that judgment be entered against Mr. Cheng to pay the Group the sum of HK$89,910,000 for his breaching of the sales and purchases agreements entered into between Mr. Cheng and the Group. The Group will continue its best endeavors to recover the amount from Mr. Cheng.

Electrical and Mechanical Engineering and Distribution

This year's performance of the segment, where nearly all the business activities are conducted in PRC, was severely affected by a trade dispute between the PRC and Japan in which one-forth of the year has been subjected to a 100% punitive import tariffs of Japan made air-conditioning products.

Pharmaceutical Plant

An operation loss of HK$823,000 was recorded from a turnover of HK$3,459,000 by Beijing Health Medical Development Co., Ltd. ("Beijing Drug"). In view of the uncertain prospect of Beijing Drug following the planned demolition and relocation of the current production facilities as stipulated by Beijing government, the Group has disposed of its entire interest in Beijing Drug in November 2001 at a cash proceed of HK$1,500,000 and ceased its business in the pharmaceutical industry.

Department Store

The Group holds 48.73% interest in an associate, Shenzhen Rainbow Shopping Co. ("Shenzhen Rainbow") which has contributed an after tax profit of HK$5,135,000 this year. However, due to the highly fluctuated nature of profitability from the retailing business in Shenzhen, the Group has disposed of its entire 48.73% shareholding in Shenzhen Rainbow at a cash proceed of HK$18,000,000 in November 2001 to improve the Group's liquidity position.

FINANCIAL REVIEW

The net asset value of the Group as at 31st March, 2002 was HK$170,913,000, which was a decrease of 26% over last year end date. It was mainly attributed by the disposal of various properties and projects during the year, and the Group has thus maintained a high cash liquidity of HK$141,437,000. Since the operating activities of the Group have yet to generate net cash inflow and the property development in Sheung Wan (in which the Group owns as to 60% interest and undertakes the borrowing risk in same proportion) has been consuming the cash reserve, the secured land and construction loans have increased to HK$170,813,000 as at 31st March, 2002. The construction loan will be going up gradually with a cap of HK$44,000,000 despite the land loan of HK$150,000,000 already utilized. The secured loan is denominated in Hong Kong dollars and is bearing interest with reference to prime rate. The Group has obtained consent from the lending bank that the repayment date be extended to December 2002. In view of the relative low interest rate, the Group made no hedge for those floating prime rate based borrowings. Besides, the Group has pledged an investment property for a loan of HK$4,183,000 as at 31st March, 2002, in which the loan is bearing interest with reference to prime rate or HIBOR rate, whichever is higher. The gearing ratio (the ratio of total liabilities over total assets) was 53% (2001: 43%).

On 28th May, 2002, the Group entered into a conditional placing agreement with the placing agent, whereby the placing agent agreed to place, on a fully underwritten basis, 390,000,000 new shares at the placing price of HK$0.10 per placing share. The net proceeds from the placing was approximately HK$38,000,000. The Company intends to use the estimated net proceeds of the placing as to approximately HK$20,000,000 for the development of Sheung Wan Project and as to the balance of approximately HK$18,000,000 for the Group's general working capital. The placing was completed on 12th June, 2002.

The Group has limited exposure to foreign exchange rate fluctuation as most of the transactions, including borrowings, are conducted in Hong Kong dollars, Renminbi and to a lesser extent, Japanese Yen. The exchange rate of Renminbi to Hong Kong dollars is stable during the year and Japanese Yen sales are mostly backed by Japanese purchases, so exchange risk is minimal. Save as aforementioned, the Group has no other material foreign exchange commitment and risk.

REWARDS FOR EMPLOYEES

As at 31st March, 2002, the Group employed about 20 persons in Hong Kong and 16 persons in the PRC. The total personnel expenses amounted to HK$15,376,000. Employees are remunerated according to qualifications and experience, job nature and performance, as well as market conditions. The Group also provides other benefits such as medical and dental insurance cover and provident fund scheme to the employees in Hong Kong. There was no share option granted to any director and employee during the year. In order to comply with the new Listing Rules, a special general meeting will be held on 26th August, 2002 to seek for the shareholders' approval for the adoption of a new share option scheme.

PROSPECTS

The Group continues to suffer from loss making operations in most businesses as a result of persistent downturn in the overall business environment, the situation will not be substantially alleviated until the completion of a satisfactory sale of the Sheung Wan project in the coming months. Continuous efforts have been made to seek business opportunities that will yield positive returns.

Tse Cho Tseung
Chairman

Hong Kong, 19th July, 2002