

# CHAIRMAN'S STATEMENT & MANAGEMENT DISCUSSION AND ANALYSIS

*To Shareholders,*

On behalf of the Directors, I would like to present the results of the Group for the year ended 31 March 2002. This is my first chairman's statement presented to you since my appointment as the Chairman of the Company in December 2001.

## Financial Results

The Group's audited consolidated loss for the year ended 31 March 2002 was HK\$238.1 million, compared with last year's consolidated loss of HK\$366.7 million.

Turnover for the year decreased from last year's figure of HK\$38.7 million to HK\$5 million in this financial year due to a decrease in rental income as the Group had disposed of one of its property investments in Mainland China during the financial year. Finance costs had decreased from last year's figure of HK\$54.5 million to HK\$28.5 million this year due to the cutting of interest expenses by continual reduction in average borrowings level.

The Group had incurred a loss of HK\$43.4 million in this financial year on the disposal of those shares of vLink Global Limited acquired under two share exchange agreements dated 23 March 2001.

During the financial year, the Group had taken steps to rationalise its businesses and investments. Full write-off totalling HK\$172 million had been made in this year against our other investments and investment securities. These investments made in prior years had produced neither the expected business turnovers nor anticipated profits as the Group originally thought of.

The net assets value of the Group as at 31 March 2002 was HK\$26.9 million after the write-off of those above-mentioned poor quality investments. We believe that overall quality of the Group's assets as at the year end had been improved substantially.

## Change of Name

It is proposed that the name of the Company be changed to "Heritage International Holdings Limited" (漢基控股有限公司) after the forthcoming annual general meeting to reflect a change of its business strategy and management philosophy.

## Dividend

The Directors do not recommend the payment of any dividend for the financial year.

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## Management Discussion and Analysis

### I. Overview

The year ended 31 March 2002 is an important year for the Group. In the prior years, the Group had diversified its businesses into the investments of high value-added technology related businesses through the acquisition of non-controlling interests in certain companies. These moves into those high value-added technology industries were proved to be non-successful. The Group had fully written off the carrying amount of such other investments and investment securities in the amount of HK\$172 million in the current financial year.

In view of the downturn of the global economy, our management team is now taking a cautious view in developing any new businesses. The Group will keep its focus on the existing business of property investments as well as investments in companies with good fundamental and/or prospects of growth. Whilst we are continually exploring investment opportunities in selected strategic industries, any such new move will be conducted in a prudent manner.

During the year, the Company had raised approximately HK\$36.7 million through placements of new shares. Subsequent to the year end, another HK\$100 million had been raised from a rights issue of shares. The purpose of those fund-raising activities is to improve the capital base of the Group and provide the necessary funds for the development of our businesses.

### 2. Summary of the Group's main businesses and investments

#### (A) **Property related businesses and investments**

During the year, the Group had disposed of a subsidiary which principally held the properties at Level 1 to 3 and certain carparking spaces of Harvest Building in Shanghai, the PRC.

The Group currently holds a 30% interest in the property development project of Guangzhou Le Palais situated in Guangzhou city of the PRC. Designed as a luxury residential property complex complemented by a club house with sports facilities, the property faces the Pearl River and the Dongshan Lake Park and has a total gross floor area of about 110,000 square metres.

The Group will keep on looking for property investment opportunities in Hong Kong or Mainland China with good potentials. As the local economy is heading towards a faster-paced recovery and in view of the steady growth in the economy of Mainland China, we believe that the property market is still a good area for our investment.

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## (B) **High value-added technology businesses**

Since the end of 2001, the Group has taken steps to rationalise its existing investments and businesses so as to ensure a higher efficiency and a greater improvement in the quality of its assets. In this regard, full write-off had been made against the carrying amount of the Group's investments in the following high value-added technology businesses:

1. "Telecommunication" — a 22% equity interest in a telecommunication company;
2. "Organic fertilisers" — a 25% equity interest in a bio-technology company which holds an indirect 80% interest in a joint venture company engaging in the production of organic fertilisers in the PRC;
3. "Manufacture and distribution of lottery-related hardwares and softwares" — a 20% equity interest in a lottery technology company which has an indirect 65% interest in a joint venture company in the PRC; and
4. "Other technology investments and operations" — a 0.766% equity interest in a company which engages in the provision of video-on-demand broadcasting technology and a 13.33% equity interest in a Microsoft certified solution provider.

## (C) **Investment in securities**

During the year, the Group had invested in certain listed securities in Hong Kong and certain debt securities. Our strategy in investing in these securities is to target at stable and long-term returns from selected companies with good fundamentals whilst also exploring other opportunities with good growth potential.

## 3. **Prospects**

The Group's new management philosophy is to maintain a healthy base of corporate structure upon which growth and improvement can be achieved. The Group aims to bring our operating results to a positive level as soon as possible.

After the several fund raising exercises above-mentioned, the Group is now with greatly improved financial position and excess cash resources. Hence the Group is well positioned to take advantage of any business opportunities should they arise. With the revised management philosophy, we are confident that, barring any unforeseen circumstances, the next financial year would be a fruitful one for the Group.

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## 4. Liquidity and financial resources

As at 31 March 2002, the Group's total assets and borrowings were HK\$409 million and HK\$373 million, respectively. The gearing ratio (total borrowings/total assets) was 91%. Most of the borrowings of the Group carried floating interest rates calculated by reference to the Hong Kong dollar prime rate except an unsecured other loan amounted to HK\$19,000 which carried a fixed interest rate. There was a first legal charge over the shares in an associate together with the assignment and transfer of all dividends or any other distribution therefrom to secure certain interest-bearing other borrowings. The borrowings of the Group were made in Hong Kong dollar hence the exposure to fluctuations in exchange rate should be minimal and therefore, no hedging transaction was entered by the Group.

HK\$348 million of the total borrowings at 31 March 2002 as shown on the balance sheet are related to secured other loans (the "Loan Payables") from a financial creditor. Funds for the repayment of Loan Payables will mainly be met by our loan receivables from an associate amounted to HK\$339 million. The Group is of the view that the Loan Payables should have no material adverse impact on the operation of our businesses.

In May 2001, the Company had issued 5,131,830,000 shares in exchange for 171,061,000 new ordinary share of vLink Global Limited.

During the year, the Company had carried out three placements of shares with details as follows:

<b>Date of allotment</b>	<b>Number of new shares placed</b>	<b>Placing price per share (HK\$)</b>	<b>Net proceeds (HK\$)</b>
31 December 2001	513,180,000	0.018	8,950,000
28 January 2002	1,000,000,000	0.018	17,440,000
25 March 2002	815,800,000	0.013	10,260,000
	<u>2,328,980,000</u>		<u>36,650,000</u>

The net proceeds from the placements were used for financing general working capital requirements.

After the year end date, the Company had effected a capital reorganisation and rights issue of 1,223,724,110 rights shares. Net proceeds of HK\$100 million had been received from the rights issue. Part of the funds so raised has been applied for investments in certain listed securities whilst the remaining funds will be used for future investment opportunities yet to be determined.

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## 5. Capital structure

In September 2001, the Company had carried out a capital reduction, share premium cancellation and share consolidation in order to eliminate the accumulated losses then. Subsequent to the year end, the Company had effected another share consolidation in May 2002. The reason behind the recent share consolidation is to increase the liquidity of the trading of the Company's shares on the stock market.

## 6. Employees, remuneration policy and retirement benefits scheme

The Group selects and promotes staff based on their qualification, experience and suitability for the position offered. The Group's remuneration policy aims to retain and motivate staff. Performance of staff is appraised annually to provide a base for the review of the remuneration package. The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for all its employees.

## 7. Contingent liabilities

Details of the Group's contingent liabilities as at 31 March 2002 are set out in note 28 to the financial statements.

Finally, I would like to take this opportunity to thank all of my fellow directors and members of staff for their dedicated services, support and contribution during the year.

**Kwong Kai Sing, Benny**

*Chairman*

Hong Kong, 26 July 2002