

BUSINESS REVIEW AND PROSPECTS

Results

During the six months ended 30 June 2002, the Group recorded an unaudited net profit attributable to shareholders of approximately HK\$34.5 million, as compared with a loss of approximately HK\$57.0 million for the corresponding six months ended 30 June 2001. The earnings per share was HK3.37 cents for the current period as compared with a loss per share of HK10.69 cents for the corresponding period ended 30 June 2001. Turnover was approximately HK\$123.3 million, an increase of approximately 3.4% from 2001's level of approximately HK\$119.3 million, which was mainly due to the increase of approximately 5.9% in the rental income from property investment (approximately HK\$3.6 million in this period versus approximately HK\$3.4 million in 2001) and the increase in investment in trading securities of approximately 5.1% (approximately HK\$86.1 million in this period versus approximately HK\$81.9 million in 2001) during the period despite a slight decrease in income for the provision of brokerage and financial services of 1.2% for this period (approximately HK\$33.6 million in this period versus approximately HK\$34.0 million in 2001).

Review and Outlook

During the period, in face of the sustained economic downturn in Hong Kong, the Group continued to consolidate its efforts on the core business of property investment and provision of brokerage and financial services. For the businesses of provision of brokerage and financial services, an operating profit (before related provision of bad and doubtful debts) of approximately HK\$10.8 million was contributed from this segment during the current period as compared with that of approximately HK\$11.0 million during the corresponding period in 2001. Besides, an operating loss (before financial costs) of HK\$1.88 million was attributable to the letting out of properties during the current period as compared with an operating profit (before financial costs and excluding the loss on disposal of an investment property of about HK\$2.8 million) of approximately HK\$4.3 million during the period ended 30 June 2001. For the investment in trading securities, despite the continuous low turnover and weak performance of the local stock market during the period, the Group's activity in the investment in trading securities was maintained with a 5.1% increase in turnover from approximately HK\$81.9 million for the period ended 30 June 2001 to HK\$86.1 million for the current period. The increase in the market value of the portfolio of the listed investments held by the Group substantially increased the operating profit from investment in trading securities to approximately HK\$87.8 million for the current period as compared with a loss of approximately HK\$ 17.2 million in 2001.

The unveiling of corporate accounts' scandals at Enron and Worldcom after the 911 event in the United States of America has significantly weakened investors' confidence and in turn pushed back the economic recovery both in the United State of America and other regions including Hong Kong. Nevertheless, the Group will take a cautious approach to consolidate its existing financial position whilst maintaining an open attitude to look for prospective attractive investment opportunities.

Liquidity and Capital Resources

During the period, while continuing to consolidate the Group's financial position to cope with the current difficult economic environment, the Group is continually seeking to improve its capital base. In August, 2002 the Company has successfully completed a Ten for One Rights Issue, raising a total additional equity of approximately HK\$111.7 million (before issue expenses) to strengthen the Group's balance sheet.

As at 30 June 2002, the Group's total shareholders' funds amounted to approximately HK\$470.7 million compared with HK\$428.4 million at 31 December 2001. As at 30 June 2002, the Group had net current assets of approximately HK\$282.1 million compared with net current assets of HK\$232.3 million at 31 December 2001. The Group has continued to improve its debt-equity structure with the achievement of a gearing ratio of approximately 143.9% and current ratio of approximately 1.67 times at 30 June 2002, compared to approximately 162.1% and approximately 1.56 times respectively at 31 December 2001.

As at 30 June 2002, the Group has bank loans and other borrowings of approximately HK\$613.4 million (31 December 2001: approximately HK\$630.5 million) and convertible notes, with an aggregate principal amount of approximately HK\$63.8 million (31 December 2001: approximately HK\$63.8 million).

As most of the Group's transactions and bank deposits were denominated in Hong Kong dollars, the Group's exposure to foreign exchange risk was minimal.

Pledge of Assets

As at 30 June 2002, certain assets of the Group with an aggregate net book value of approximately HK\$580.2 million (31 December 2001: approximately HK\$446.4 million) were pledged to banks and other financial institutions to secure credit facilities granted to the Group. In addition, interests in two associates were pledged to secure an outstanding loan and interest payment payable to a lender.

Contingent Liabilities

The Company has given a guarantee to the noteholder to the extent of HK\$53 million in respect of a convertible note of HK\$53 million issued by a former subsidiary. As at 30 June 2002, the outstanding amount of the convertible note was HK\$10 million. The Company has also executed a guarantee for the due observance and performance of the former subsidiary under a shareholders' agreement entered into among the Company, the former subsidiary and other third parties.

Employees

As at 30 June 2002, the total number of employees of the Group was 76. The Group remunerates its employees based on their performance, working experience and prevailing market standards and reviews their remuneration annually. Staff benefits include a medical insurance coverage, provident fund and a share option scheme.

Prospects

The economy in Hong Kong continues to be adversely affected by the global economic downturn especially in the United States of America in the short term. However, the Company is optimistic that with the previously unseen level of low interest prevailing, the growing positive impact in the context of China's accession to the World Trade Organisation and its improved financial strengths, the Group is well-placed to benefit from an anticipated economic upturn. The Group has proposed to redomicile back to Hong Kong to be ready to take advantage of any opportunities in the years ahead. Full details of the Group's redomicile plan are set out in the Company's announcements of 27 August 2002 and 13 September 2002. Given our improved performance and financial position, the Board remains cautiously optimistic about the medium term prospects for the Group.

Subject to the proposed redomicile for the Company becoming effective, the Company will apply the amount standing to the credit of the contributed surplus account to write off the accumulated deficit of the Company. This will enable the Company to resume paying dividend once the Company begins to revert to profitability.

Based on the financial performance of the Group for the six months ended 30 June 2002 and barring unforeseen circumstances, the directors expect the results of the Group to improve significantly from the financial year 2001. Upon the proposed redomicile becoming effective, the directors propose to pay a special dividend of Hong Kong 0.28 cents per then existing share of the Company (equivalent to Hong Kong 7 cents per new share in the new holding company of the Company) to those persons registered as shareholders of the Company on the effective date of the proposed redomicile.