

Management Discussion and Analysis

Review of Operations

The Directors wish to set out below the review of the Group's business activities for the year ended 31 December 2002 and the overview of the Group's objectives in the year ahead.

Restructuring and Consolidation

2002 was another challenging year for the Group. During the year, the Group had successfully completed various restructuring targets as laid down in the year before and the Board believed all the necessary restructuring measures could be accomplished within the coming year.

The Group had disposed of six under performed and heavy interest bearing property investments during the year through public tender and private offer and realized approximately HK\$148 million which had been used to repay the bank loans. However, the Group also suffered a total loss on disposal of approximately HK\$71 million on such disposal transactions as a result of the declining property market and a lack of confidence across Hong Kong. However, the Board considered that the property investment activities would still be the core activity and major business segment of the Group and the Board is actively looking into different opportunities in Hong Kong, Macau and the Mainland China which can strengthen both the property portfolio and income stream of the Group.

In March 2002, the Company successfully reached a settlement agreement with the debenture holder and discharged the Company from the winding-up petition filed by the debenture holder in October 2001. The Company is actively negotiating with its three major bankers for re-scheduling the terms and conditions of the loans and these negotiations remain highly positive. The Company just recently finalised the terms and conditions of a draft deed of settlement with a bank and the Board is optimistic that the negotiation with two other banks will be fruitful and the Group should be able to resolve the bank loans issue in the first half of the year.

In November 2002, the Company had obtained the Court approval for reducing the par value of the shares of the Company from HK\$0.025 to HK\$0.001. Following the share consolidation of 100 shares to 1 share, the new par value of the share capital of the Company is HK\$0.1 per share. The par value reduction close the gap between the par value and the then market value of the share of the Company and thereby enhance the ability and flexibility of the Company in raising new capital from the market.

More stringent cost saving measures are implemented during the year and thereby reducing the expenditure of the Group to a more reasonable and justifiable level. As most of the assets and liabilities of the Group are denominated in Hong Kong dollar, the Board considered the Group is not subject to any material exchange rate exposure.

Staff and Remuneration Policy

At present the Group only retains 4 permanent staff in the Hong Kong office apart from the executive directors. The staff and directors (including the independent non-executive directors) are remunerated according to nature of the job and market conditions.

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Corporate Results

The Group posted a turnover of HK\$152,790,000 which represented an increase of 1,586% to the turnover in last year. The substantial increment was mainly due to the inclusion of the proceeds on disposal of properties of HK\$148,030,000 as turnover while in last year the disposal of properties was conducted through the sale of subsidiaries and the respective result was included in the income statement as loss on disposal of subsidiaries. Loss attributable to the shareholders increase to HK\$261,984,000 (an increment of 31% from the loss in last year of HK\$199,418,000) owing to the loss incurred for written off an investment security amounted to HK\$110,000,000. Should the loss on investment be excluded, the loss for the year was only HK\$151,984,000 which mainly attributable to the finance costs of HK\$41,598,000 (2001: HK\$36,302,000); revaluation deficit and impairment loss over properties portfolio of HK\$28,000,000 (2001: HK\$136,820,000) and the loss on disposal of properties of HK\$70,985,000 (2001: HK\$6,118,000).

Financial Resources and Liquidity

The Group's total borrowings (excluding trade and other payables) amount to HK\$141,091,000 as at 31 December 2002 which represented a sharp decrease of 50% from the total borrowings (excluding trade and other payables) in last year of HK\$280,715,000. The Board will continue its negotiation with the banks seeking for a restructuring proposal and thereby further reduce the borrowing level of the Group. As at 31 December 2002, the properties portfolio with carrying value of HK\$43,500,000 (2001: HK\$290,515,000) and a motor vehicle with net book value of HK\$550,000 (2001: HK\$763,000) had been pledged to the financial creditors as security for the above borrowings.

For the last two years, the share of the Company had been trading at values substantially below its par value and thereby greatly affected the ability of the Company in raising new finance through the capital market. Most of the finances obtained in 2002 were therefore through debt instruments or short term commercial loans from corporate investors. However, with the par value reduction in place by end of 2002, the Board of Directors believes that the Company is now in a better position to obtain fresh funding from the equity market and can thereby enlarge the capital base of the Company and lower the finance cost of the Group.

The current ratio is 0.27 which showed a reduction of around 51% from last year figure of 0.55. Taking into consideration of the intended restructuring of bank loans together with the fund raising through right issues or placements, the directors are of the opinion that sufficient working capital are available to fulfil the financial obligations when they fall due and to meet the future funding requirement of the Group.

Dividends

In view of the loss situation of the Company in the past few years, the Board has resolved not to recommend the payment of any dividend for the year ended 31 December 2002 (2001: Nil).

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Prospects and Outlook

The property market in Hong Kong remains highly depressed in the year of 2002 as a result of the continuous economic recession, declining retail market and inflated unemployment rate. The measures undertaken by the Government in the next few years for reducing the budget deficit will further reduce the purchasing power and withhold the buying intention of the general public, thus severely affecting the retail segment of the property market. Moreover, the recent outbreak and widespread of the atypical pneumonia will further damage the already weakened local economy.

In view of the above adverse situation, the Board of Directors will continue to take a very prudent approach in directing the business of the Group. Bank loans restructuring will remain the top priority of the Group in the coming year. On the other hand, the Board will also review and consider any investment opportunity that may contribute to the profitability and financial position of the Group in particular those that may cope with the future upturn of property market and recovery of local and world economy. The Board will also improve the capital base of the Company through right issues or placement from time to time if market situation allows.

With all the measures in place, the Board is optimistic that the Group will be more solidly positioned and ultimately bear fruit from the foundations laid down in these two years. The Board owes a lot of gratitude to the Group's bankers, creditors, management and staff for their continued support in such a hard time.

On behalf of the Board

Ha Shu Tong

Managing Director

Hong Kong SAR, 25 April 2003