

Management Discussion and Analysis

LIQUIDITY & FINANCIAL RESOURCES

The Group's liquidity and financial resources position continued to be healthy and stable. The Group's cash and bank deposits as at 31 December 2002 amounted to HK\$22,477,000 (2001: HK\$36,363,000). There is no bank borrowings as at 31 December 2002 (2001: HK\$27,565,000).

The business operation was generally financed by the Group's internal funding. For the year, net cash outflow from operating activities amounted to approximately HK\$88,504,000 (2001: HK\$38,741,000).

CAPITAL STRUCTURE

As at 31 December 2002, consolidated shareholders' equity reached HK\$137,845,000 (2001: HK\$20,762,000) and there is no aggregated interest-bearing borrowings as at 31 December 2002 (2001: HK\$27,565,000). The Group's debt to equity ratio was approximately 0.002 (2001: 3.8).

REWARD FOR EMPLOYEES

As at 31 December 2002, the Group employed approximately 150 employees in Hong Kong and the Mainland China. They were remunerated according to the nature of the job and market conditions. Other staff benefits include a mandatory provident fund scheme, insurance, medical insurance and share option scheme.

PLACEMENT

On 24 May 2002, the Company offered a placement of 350,000,000 shares at a price of HK\$0.32 each. The net proceeds from the placing were amounted to approximately HK\$111,000,000, and of which HK\$20,000,000 has been used as working capital for the Group. The remaining HK\$91,000,000 will be used for investing in development with great potential.

CONDITIONAL MANDATORY GENERAL OFFER

On 17 February 2003, Mr Dai Zhi Kang, the chairman of the Company, acquired a 50% interest in the entire issued share capital of Giant Glory Assets Limited from Mr He Xuechu. Immediately after completion of the acquisition, Mr Dai Zhi Kang has become the beneficial owner of the entire issued share capital of Giant Glory Assets Limited. On the same day, Giant Glory Assets Limited entered an agreement with Peak Smart Holdings Limited to acquire 500 million shares (representing approximately 11.55% of the issued capital of Shanghai Century as at the date hereof) at a consideration of HK\$25,000,000. Pursuant to the Takeovers Code, Giant Glory Assets Limited, Mr Dai Zhi Kang and parties acting in concert with any of them made a conditional mandatory general offer (the "Offer") for all the issued shares at a price of HK\$0.05 per share. The Offer has closed at 4:00 p.m. on 22 April 2003 and valid acceptances in respect of 409,080,000 shares (representing approximately 9.44% of the entire issued share capital of the Company) have been received.

Subject to completion of the transfer of the 409,080,000 shares, Giant Glory Assets Limited, Mr Dai Zhi Kang and parties acting in concert with any of them will be interested in 2,519,080,000 shares, representing approximately 58.16% of the entire issued share capital of the Company and of the voting rights which may be exercised at general meetings of the Company.

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CLOSURE OF REGISTER OF MEMBERS

As no final dividend was proposed, it was not necessary to close the register of members of the Company.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

None of the Directors is aware of information that would reasonably indicate that the Company is not, or was not for any part of the financial years ended 31 December 2002, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules.

AUDIT COMMITTEE

Mr Chan Wai Dune and Mr Goh Gen Cheung have resigned as independent non-executive directors and members of the audit committee of the Company on 20 August 2002 and 1 September 2002 respectively. On 19 September 2002, Mr Hui King Wai and Mr Lo Mun Lam, Raymond have been appointed as independent non-executive directors and members of the audit committee of the Company. In establishing the audit committee, the Directors have regard to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong of Accountants in December 1997.