

# Management Discussion and Analysis

## LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

As at the balance sheet date, the Group had net current liabilities of HK\$19,638,143 and net deficiency in shareholders' fund of HK\$35,576,522. As at 31st December, 2002, the Group had cash and cash equivalents of approximately HK\$20,462,000 (2001: HK\$10,072,000). The amount of bank loans and mortgage loans as at 31st December, 2002 was approximately HK\$6,865,000 (2001: HK\$37,680,000). The amount of bank loans and mortgage loans was due within one year other than the long-term portion of the mortgage loans of approximately HK\$2,994,000 (2001: HK\$3,706,000).

The Group's gearing ratio was 1.27 as at 31st December, 2002 as compared with 0.98 as at 31st December, 2001. The gearing ratio is calculated by dividing total liabilities by total assets.

Subsequent to the balance sheet date, the Group disposed of the entire issued share capital of Mansion House Real Estate Limited, a subsidiary incorporated in Hong Kong, to reduce the Group's level of short-term borrowings. The principal asset of Mansion House Real Estate Limited was its holding of a 92% economic interest in Guangdong Wanhua Real Estate Development Co., Ltd. The net proceeds from the disposal was approximately HK\$38.3 million.

## CAPITAL STRUCTURE

The Company increased its authorised share capital from HK\$90 million to HK\$400 million by the creation of 1,550 million new shares of HK\$0.20 each ranking pari passu in all respects with the existing shares of HK\$0.20 each in the share capital of the Company at its extraordinary general meeting held on 20th June, 2002.

The Company entered into a subscription agreement with China United Telecom Limited and Mr. Evans Carrera Lowe on 20th April, 2002. Pursuant to the subscription agreement, the Company agreed to allot and issue to China United Telecom Limited 148,125,000 new shares at HK\$0.20 each together with three bonus shares for every new share subscribed by China United Telecom Limited. Pursuant to the subscription agreement, Mr. Evans Carrera Lowe agreed to exchange a shareholder's loan of HK\$9,875,000 for 49,375,000 new shares at HK\$0.20 each together with three bonus shares for every new share. Completion of the subscription agreement took place on 6th August, 2002. The net proceeds raised from the subscription were mainly applied to settle the pressing financial commitments of the Group, and the remaining balance was used for general working capital of the Group.

The Company entered into an option agreement with China United Telecom Limited on 6th August, 2002, pursuant to which the Company granted an option to China United Telecom Limited to subscribe for an aggregate of 150,000,000 shares at a subscription price of HK\$0.20 per share. The Company also entered into an option agreement with Mr. Evans Carrera Lowe on 6th August, 2002, pursuant to which the Company granted an option to Mr. Evans Carrera Lowe to subscribe for an aggregate of 50,000,000 shares at a subscription price of HK\$0.20 per share. During the year, China United Telecom Limited exercised the



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option to subscribe for 27,000,000 new shares for HK\$0.20 each pursuant to the option agreement. The funds raised from the exercise of option were applied to reduce the borrowings of the Group.

The Company entered into two subscription agreements with each of Jagger Edge Enterprises Limited and JAIC-Somerley Corporate Development Fund Limited on 2nd October, 2002. Pursuant to the subscription agreements, Jagger Edge Enterprises Limited agreed to subscribe for 10,000,000 new shares at HK\$0.25 each and JAIC-Somerley Corporate Development Fund Limited agreed to subscribe for 17,200,000 new shares at HK\$0.215 each. Completion of the subscription agreements took place on 7th October, 2002. The funds raised from these two subscription agreements were also applied to reduce the borrowings of the Group, and the remaining balance was used for general working capital of the Group.

Subsequent to the balance sheet date, on 4th April, 2003, the Company entered into a subscription agreement with Mr. Evans Carrera Lowe, Ms. Irene Wai Yin So, Mr. Philip Tai Yip Poon, Mr. David King Chuen Lung, Mr. Lu Ruifeng, Dr. Gu Qinhua Joseph and P. C. Woo & Co. to subscribe for an aggregate of 24,957,815 shares at a subscription price of HK\$0.45 per share. The consideration for the shares will be set off against debts amounting to HK\$11,231,018 due to the subscribers. Completion of the subscription agreement is expected to be not later than 4th July, 2003.

### TREASURY POLICIES

The business activities of the Group were mainly funded by bank facilities, non-bank borrowings and cash generated from operating activities. As at the balance sheet date, the bank facilities were mainly subject to floating interest rate, while the non-bank borrowings were mainly subject to fixed interest rate. The Group's bank facilities and non-bank borrowings were mainly denominated either in Hong Kong dollars or Renminbi as at the balance sheet date. During the year, the Group closely negotiated with lenders to restructure the borrowings to medium and/or long-term debts.

Foreign currency risk should not be significant to the Group since substantial investments and borrowings were either denominated in Hong Kong dollars or Renminbi which were quite stable during the year. No complex financial instruments have been employed for hedging purposes by the Group.

### MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There was no material acquisition or disposal of subsidiaries and associated companies by the Group during the year. Subsequent to the balance sheet date, the Group disposed of the entire issued share capital of Mansion House Real Estate Limited.



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## EMPLOYEES

As at 31st December, 2002, the Group employed 45 (2001: 58) staff in Hong Kong. Remuneration is reviewed annually and a discretionary bonus is declared based on the performance of the staff. Also, the 2002 share option scheme adopted by the Company at its extraordinary general meeting held on 27th June, 2002 is in operation.

## CHARGE ON THE GROUP'S ASSETS

The Group's leasehold properties have been pledged to secure general banking facilities granted to the Group to the extent of HK\$5,000,000 (2001: HK\$5,000,000) of which HK\$3,852,554 (2001: HK\$4,340,650) was utilised at the balance sheet date.

At 31st December, 2001, clients' securities with a total market value of HK\$31,308,223 were pledged to banks to secure loans and overdraft facilities granted to the Group. At 31st December, 2002, none of the clients' securities were pledged.

At 31st December, 2001, certain portion of the properties held for development had been mortgaged to a bank in the PRC for loans and overdrafts granted to a subsidiary in the amount of HK\$28,380,000. At 31st December, 2002, none of the properties held for development were mortgaged.

## CONTINGENT LIABILITIES

A subsidiary of the Company has provided a letter of indemnity to a bank in respect of the bank guarantee of HK\$240,000 (2001: HK\$240,000) given to the Hong Kong Securities Clearing Company Limited in lieu of cash contribution to the CCASS Guarantee Fund.

