

Management Discussion and Analysis

FINANCIAL RESULTS

The Group recorded turnover of approximately HK\$19.9 million representing a decrease of 95.8% over last year. The loss attributable to the shareholders was approximately HK\$800.3 million as compared with approximately HK\$670.0 million for the preceding year. The loss attributable to shareholders was principally due to provisions made for diminution in value of the Group's investment and development properties of approximately HK\$757 million. Such properties were acquired by the Group under the control of former directors of the Company, including Mr. Wong Kwan, who disposed of his majority interest in the Company and resigned as Director on 29th January, 2002.

Loss per share was approximately 4.88 cents as compared with 5.0 cents for the preceding year.

BUSINESS REVIEW

During the year under review, the Group underwent a period of extreme difficulty both resulting from the external environment and the problems inherited from the previous management.

During the first half year, the Group had made serious attempt to complete the hotel development in Western District. This was later suspended due to lack of support from mortgagee bank and the substantial construction claims filed by contractors, who were employed by the previous management.

The Group also suspended the construction work at Skyhigh, located at No. 10 Pollock's Path, The Peak, Hong Kong. The suspension was necessary to allow time for capital restructuring as the substantial mortgaged loans would make the development unviable. In addition, there was a claim brought against the subsidiary company, owning this project, by one of the neighbour, on the ground that our property development caused unnecessary nuisance and disturbance. At a hearing at the High Court in October 2003, an order was made by the Court to wind up this subsidiary company. The Company has sought legal advices regarding the future proceeding of this case.

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In April 2003, winding up petitions were made against the Company by Mr. Wong Kwan, the former Chairman of the Company, who had demanded repayment of approximately HK\$62 million for shareholder loan and another petition for unpaid remuneration. These actions have caused the mortgagee banks to take protective move by demanding repayment of the outstanding loans. The hearing of the winding up petitions had been fixed on 27th to 30th April, 2004. On 31st July, 2003 and 26th September, 2003, two subsidiaries of the Company had filed writs against former directors including Mr. Wong Kwan, Mr. Siu King Nin, Peter and Mr. Yuen Hon Ming, Edwin to seek compensation from them for alleged breach of fiduciary duties as directors. The compensation sought is HK\$268 million and HK\$300 million respectively.

INVESTMENT AND DEVELOPMENT PROPERTIES

Despite numerous interest rate cuts in the year 2002, the property market remained depressed. To reflect reality, we have to revalue properties acquired by previous management and write off HK\$757 million, approximately 50% of property value. The total debt together with outstanding interest payments amounted to approximately HK\$1,138 million as at 31st December, 2002. Under pressure from the mortgagee bank, the Company has, in October 2003, arranged for public tender of our hotel development. The tender was closed in the first week of December.

The Group is actively pursuing a re-structuring plan with the creditors to prepare for injection of assets and capital.

LIQUIDITY AND FINANCIAL RESOURCES

The Group financed its operation with internally generated cash flow and loan extended by the Chairman, Mr. Wei Wu. As at 31st December, 2002, the Group's total liabilities were being reduced from HK\$1,414 million to HK\$1,371 million and the net liabilities of the Group was HK\$567 million. Cash and bank deposits as at 31st December, 2002 was approximately HK\$1.9 million.

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CONTINGENT LIABILITY

There is no significant contingent liability as at 31st December, 2002 except for those already disclosed in the financial statements.

SIGNIFICANT INVESTMENTS

The Group has no significant investments during the year under review.

MATERIAL ACQUISITIONS OR DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the year under review, the Group disposed of certain subsidiaries engaged in the telecommunications and internet businesses and certain other assets to Mr. Wong Kwan (a former director and an existing shareholder of the Company) for cash consideration of HK\$30,000,000, resulting in a gain of approximately HK\$24,755,000, which was reflected in the income statement for the current year.

CHARGES ON GROUP ASSETS

As at 31st December, 2002, the Group had aggregate banking facilities of approximately HK\$1,138,040,000 (2001: HK\$1,169,411,000) from several banks for overdrafts and loans, which were fully utilised.

FUTURE PLANS FOR MATERIAL INVESTMENTS

Other than those disclosed under the section of Management Discussion and Analysis, the Group did not have any plans for material investment and acquisition of material capital asset as at 31st December, 2002.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

Most of the Group's monetary assets and liabilities were denominated in Hong Kong dollars and US dollars. As the Hong Kong dollars is currently tied to the US dollars at a fixed exchange rate, the exchange rate risks of the Group were considered to be minimal. At 31st December, 2002, no related hedges were made by the Group.

EMPLOYEES

As at 31st December, 2002, the total number of employees of the Group was approximately 61. The Group continues to reward its staff with a reasonable remuneration package which includes medical insurance, retirement benefit and etc.

PROSPECTS

In spite of the difficulties, the company has retained key professionals to head each operation department. They are now working hard on the debt restructuring and recovery of lost assets. The management is confident that this team will help the Company in securing good investment opportunities in Hong Kong and Mainland China.



MANAGEMENT



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