

MANAGEMENT DISCUSSION AND ANALYSIS

Results

On 20th June 2003, the Group completed an extensive reorganisation (the “Group Reorganisation”), which included, amongst other things, the cancellation and distribution of the share premium and a portion of the retained earnings of the Company amounting to approximately HK\$1,187 million in specie in the form of shares of Besteam Limited (a then wholly owned subsidiary of the Company).

The Group Reorganisation impacted on the results and the balance sheet of the Group. Besteam Limited, its subsidiaries and its associated companies (collectively “Besteam Group”) had been disposed of by the Company after the completion of the Group Reorganisation. Results of Besteam Group up to 20th June 2003 were included in the results of the Group and the net assets of Besteam Group were excluded from the Group’s balance sheet as at 30th September 2003.

Loss attributable to shareholders of the Group for the six months ended 30th September 2003 was approximately HK\$32 million compared with a profit of approximately HK\$31 million (as restated) last period. The results included the loss of approximately HK\$8 million incurring from Besteam Group and the expenses of approximately HK\$38 million incurring from the reorganisation exercise. The reorganisation costs included the cancellation of share options of the Company amounted to approximately HK\$33 million as mentioned under the heading of “SHARE OPTION SCHEME” below. Apart from this, during the period under review, recurring profits were still generated from the Group’s normal operation.

As a consequence of reorganisation, turnover for the period amounted to approximately HK\$57 million, representing a decrease of 63% compared with that of last period. Loss from operations for the period amounted to approximately HK\$11 million, compared with a profit from operations of approximately HK\$59 million last period. Loss from operations included the reorganisation costs of approximately HK\$38 million as mentioned above and the operating profit of approximately HK\$2 million generated from Besteam Group.

Gross rental income and its segment result for the period amounted to approximately HK\$41 million and a profit of HK\$32 million respectively, representing an increase of approximately 2% and a decrease of approximately 17% respectively when compared with those of last period. Pursuant to the management contract entered on 20th June 2003, the Group will receive a guaranteed annual net rental income in respect of the Elizabeth House Commercial Podium of HK\$78 million for three years commencing from 26th June 2003.

Contribution from property development was derived from Besteam Group. As a consequence of the Group Reorganisation, the turnover and its segment results decreased by approximately 86% and 88% respectively. On the other hand, contribution from security investment was insignificant to the Group for both periods.

Liquidity and financial information

The Group's total borrowings as at 30th September 2003 amounted to approximately HK\$672 million compared with approximately HK\$894 million as at 31st March 2003. Cash and bank balances amounted to approximately HK\$622 million as at 30th September 2003 compared with approximately HK\$789 million as at 31st March 2003. Net borrowings amounted to approximately HK\$50 million as at 30th September 2003 compared with approximately HK\$105 million as at 31st March 2003.

Gearing ratio of the Group which is expressed as a percentage of total borrowings to shareholders' funds was approximately 43% as at 30th September 2003 compared with approximately 32% as at 31st March 2003. Net gearing ratio of the Group which is expressed as a percentage of net borrowings to shareholders' funds was approximately 3% as at 30th September 2003 compared with approximately 4% as at 31st March 2003.

Of the Group's total borrowings as at 30th September 2003, HK\$62 million (9%) would be due within one year, HK\$60 million (9%) would be due in more than one year but not exceeding two years, HK\$235 million (35%) would be due in more than two years but not exceeding five years and the remaining balance of HK\$315 million (47%) would be due in more than five years.

The above borrowings included the bank borrowings of HK\$662 million, which were secured by the first charges on the investment property and other specified assets of the Group and corporate guarantees from the Company.

The Group has limited exposure to foreign exchange fluctuations as most of its transactions including the borrowings are mainly conducted in Hong Kong dollars.

BUSINESS REVIEW AND OUTLOOK

During the period under review, Hong Kong's economy has been on the road of recovery. Stock prices went high and so have other market activities in general. Most importantly, consumer confidence has shown signs of improvement and people appear to be willing to spend again. The relaxation of travel restrictions for PRC nationals to enter Hong Kong has also been helpful in making Hong Kong's restaurants and shops busier in some commercial and retail districts such as the Causeway Bay where the Company's principal investment property, Elizabeth House Commercial Podium ("E-House"), is located. As a result, the rental income from E-House has been improving and has reached the level of pre-SARS earlier this year because most of the vacant spaces have been taken up by new tenants and monthly rentals have been received in a timely fashion.