

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 2003 and the overview of the Company's objectives in the year ahead.

Re-structuring and consolidation

2003 was a remarkable and dynamic year in which the Group achieved a substantial breakthrough in its restructuring exercise that had been dragged on for a few years. The Group has three major bank creditors and after lengthy negotiation, the Group finally able to reach a settlement arrangement with each of them during the year of 2003. The details of such arrangement were as follows:

- (1) In June, the Group executed a settlement deed with a bank for the payment of HK\$1.8 million as a final and full settlement of the outstanding indebtedness of approximately HK\$14.6 million as at the date of the deed. The deed became unconditional upon the payment of the said HK\$1.8 million by the Group in August 2003. The Group thereby realised approximately HK\$12 million through the de-consolidation of the borrower, being a wholly-owned subsidiary of the Company, after the completion of the settlement deed.
- (2) In September, the Group executed a settlement deed with another bank that was supplemented by a supplemental deed in December 2003. Pursuant to those, the Group was required to settle a total of HK\$15 million to the bank as a final and full settlement of the outstanding indebtedness of approximately HK\$22.6 million as at the date of the settlement deed. Upon the full payment of the said HK\$15 million, the bank would release the mortgages on two properties own by the Group. In February 2004, the Group fully settled the agreed amount and also re-mortgaged one of the property for an installment loan of HK\$5 million from a new bank.
- (3) In December, the Group entered a settlement agreement with the final bank creditor. Pursuant to such agreement, the Group committed to pay HK\$18 million in cash and to surrender all those properties that had been mortgaged to the bank creditor as final and full settlement of the outstanding indebtedness of approximately HK\$165 million as at 31 December 2003. In addition, the Group also agreed to deliver 60% of its future recovery on six investment projects (after expenses) to the bank as and when derived as the consideration for the bank to enter into the settlement agreement. These investment projects had all been written off by the Group in the past few years.

In order to cope with the payment obligation of the above settlement arrangements as well as to meet with the working capital requirement of the Group, the Company had entered several subscription agreements with various investors since 1 January 2003.

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In June 2003, the Company had placed out 60,000,000 shares of the Company at par to five private investors despite a very negative market condition and thereby obtained around HK\$5.8 million fresh funding for the payment of certain long outstanding indebtedness and for general working capital purposes.

In January 2004, the Company executed a subscription agreement with Group First Limited ("GFL") and pursuant to which GFL agreed to conditionally subscribe for 500,000,000 shares of the Company at HK\$0.10 each. The subscription shares would be issued together with 1,500,000,000 bonus shares on the basis of three bonus shares for each share subscribed by GFL. The subscription was completed on 12 March 2004 and the Company received HK\$50 million gross proceeds thereof which had been utilised to a large extent for the repayment to bank creditors and other trade creditors.

In early January of 2004, the Company also entered into four loan capitalisation agreements with four of its loan creditors in respect of a total outstanding loan amount of HK\$34,000,000. Pursuant to the four loan capitalisation agreements, the Company agreed to issue and allot an aggregate of 340,000,000 shares of the Company at HK\$0.10 each credited as fully paid up by way of capitalising the outstanding loans of HK\$34,000,000. The capitalisation shares would be issued together with 1,020,000,000 bonus shares on the basis of three bonus shares for each share subscribed by the lenders. Completion of the four loan capitalisation agreements took place simultaneously with the subscription agreement of GFL on 12 March 2004.

The Board was delighted to report that following the completion of the settlement arrangement with bank creditors, subscription of shares by GFL and the loan capitalisation of the four loan creditors as stated above, the net assets deficiency of the Group had now been successfully turned around and the Group has also equipped with the necessary resources for its future expansion and development.

The stringent cost saving measures implemented during the past two years will continue despite the recovery of the Group and the Board will be very caution in containing the expenditure of the Group in a reasonable and justifiable range. 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.

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Change of Company name

In order to signify the completion of the restructuring exercise of the Company and also to refresh its corporate image, the Board proposes to change the name of the Company to Landune International Limited and in Chinese, 藍頓國際有限公司. The change of name is subject to the approval by the shareholders in the annual general meeting convening on 28 May 2004. The annual general meeting will also consider other matters such as, inter alia, the amendments to the memorandum and articles of the Company, the adoption of a new share option scheme and terminate the existing one, the grant of general mandate to the Directors for the issue and repurchase of shares of the Company and the re-election of Directors. A circular containing further information on the proposed resolutions relating to the above and the notice of the annual general meeting will be dispatched to the shareholders together with the annual report.

Corporate results

The Group posted a turnover of HK\$9,657,000 (2002: HK\$152,790,000) which represented a decrease of 94% to the turnover in last year. The reduction was mainly due to the lower level of properties transactions in the current year of HK\$8.4 million (2002: HK\$148 million) as a result of the sluggish market conditions due to the outbreak of Severe Acute Respiratory Syndrome in early 2003 and also the Group retained a much smaller properties portfolio as compared with the year before. Loss attributable to the shareholders reduce substantially to HK\$36,162,000 (a decrease of 86% from the loss in last year of HK\$261,984,000). The loss reduction for the year mainly attributable to the lower financial cost of HK\$28,420,000 (2002: HK\$41,598,000); no further revaluation deficit over properties portfolio (2002: HK\$28,000,000); the smaller loss on disposal of properties of HK\$4,000,000 (2002: HK\$70,985,000) and no further write-off on investment securities (2002: HK\$110,000,000).

Financial Resources and Liquidity

The Group's total borrowings (excluding trade and other payables) amount to HK\$230,491,000 as at 31 December 2003 which represented a slight increase of approximately 5% from the total borrowings in last year of HK\$220,527,000. However, it should be noted that the current borrowing level has not yet accounted for the effect of the settlement arrangement with the bank creditors and the loan capitalisation by the loan creditors. As indicated in the pro-forma unaudited consolidated balance sheet annexed to the annual report, the Group's total borrowings would be reduced to around HK\$6 million should all those transactions have been completed by 31 December 2003. As at 31 December 2003, the properties portfolio with carrying value of HK\$31,100,000 (2002: HK\$43,500,000) had been pledged to the bank creditors as security for the above borrowings.

The current ratio is 0.14 which showed a reduction of around 50% from last year figure of 0.27. However, the current ratio would be substantially improved to 1.7 after the completion of the restructuring as mentioned before. Taking into consideration of the completion of the restructuring and the subscription of shares and the possible fund raising in future, 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.

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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 a dividend for the year ended 31 December 2003 (2002: HK\$Nil).

Staff and remuneration policy

As at 31 December 2003, 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 director) are remunerated according to nature of the job and market conditions. It is anticipated that more staff may be recruited in future as a result of the recovery and expansion of the Group.

Prospects and outlook

Following the completion of the settlement arrangement, the subscription of shares and the loan capitalisation agreements, the Group has been restored to a positive net assets value and release from a tough liquidity position. The Group has successfully overcome its recent crisis brought by the outburst of the property bubble and now equipped with the necessary resources to further expand its existing and future business. The gradual recovery of the Hong Kong economy and the local property sector as well as the open up of the market in the Mainland China to Hong Kong companies will definitely provide untapped opportunities to the Group for investment. The Group is ready for such opportunities to further its core business as well as to diversify into other valuable business as and when available. It is anticipated that the existing resources of the Group will not be sufficiently enough to satisfy all such needs and the Company will continue to improve its capital base to cater for such demand. The Board is optimistic that the value of the Group, its profitability and financial position will all be enhancing through these investment activities.

The Board owes a lot of gratitude to the Group's shareholders, bankers, creditors, management and staff for their tolerance and support in the previous difficult period.

On behalf of the Board

Ha Shu Tong

Managing Director

Hong Kong SAR, 29 April 2004