

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

As at the balance sheet date, the Group had net current assets of approximately HK\$16,216,000 and net deficiency in shareholders' fund of approximately HK\$21,637,000. As at 31st December, 2003, the Group had cash and cash equivalents of approximately HK\$4,431,000 (2002: HK\$20,462,000). The amount of bank loans as at 31st December, 2003 was approximately HK\$458,000 (2002: HK\$6,865,000) which was due within one year.

The Group's gearing ratio was 1.18 as at 31st December, 2003 as compared with 1.27 as at 31st December, 2002. The gearing ratio is calculated by dividing total liabilities by total assets.

In February 2003, the Group disposed of the entire issued share capital of Mansion House Real Estate Limited ("MHREL"), a subsidiary incorporated in Hong Kong, to reduce the Group's level of short-term borrowings. The principal asset of MHREL was its holding of a 92% economic interest in Guangdong Wanhua Real Estate Development Co., Ltd., a co-operative joint venture established in PRC. The net proceeds from the disposal was approximately HK\$31.8 million.

In July 2003, Double Deal Limited, a wholly owned subsidiary of the Company, entered into a disposal agreement pursuant to which Double Deal Limited agreed to dispose of its properties for HK\$4,500,000 in order to reduce the Group's borrowings and the amount of interest payment by the Group. The disposal was completed on 6th October, 2003.

CAPITAL STRUCTURE

In 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 was set off against debts amounting to HK\$11,231,018 due to the subscribers. Completion of the subscription agreement took place on 4th July, 2003.

In November 2003, the Group completed a placing and subscription of 95,200,000 shares at a price of HK\$0.45 per share. The net proceeds were mainly applied to reduce borrowings and used for general working capital of the Group.

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 and the non-bank borrowings were denominated in Hong Kong dollars. The bank facilities were mainly subject to floating interest rates while the non-bank borrowings were subject to fixed interest rate. 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, other than the disposal of the entire issued share capital of MHREL.

EMPLOYEES

As at 31st December, 2003, the Group employed 32 (2002: 45) 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 in June 2002 is in operation.

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 (2002: HK\$240,000) given to the Hong Kong Securities Clearing Company Limited in lieu of cash contribution to the CCASS Guarantee Fund.