

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's turnover for the year ended 31 December 2002 was approximately HK\$9,625,000 (2001: HK\$66,708,000), representing a decrease of 86% as compared with last financial year. It was mainly due to the decrease in rental income and minimisation of the trading securities operation during the year.

For the year ended 31 December 2002, the Group recorded a consolidated loss of approximately HK\$8,803,000, while it registered a profit of HK\$38,104,000 for the last corresponding year. The decrease was attributable to the deficit on revaluation of investment properties in Hong Kong amounted to HK\$4,750,000 (2001: surplus of HK\$3,514,000) and the loss from the disposal of the investment properties amounted to approximately HK\$2,046,000 (2001: HK\$3,318,000). The consolidated loss is also due to the decrease in other revenue. Last year, the Group recorded a compensation revenue amounted to approximately HK\$53,743,000 from joint venture partner in respect of the valuation of the land contributed to the joint venture. Discounting these factors, the result for the year actually showed improvement and the operating loss was narrowed.

BUSINESS REVIEW

The principal activities of the Group are property investments and securities trading. The analysis of each business operation are set out as follows:

Securities Trading

During the year, the management reviewed the Group's business operation and laid down several business strategies for the Group. One of the business strategies was to minimise the securities trading operation. The Group aimed to bring a more stable performance in the future. As such, there was no turnover and profit or loss arising from the securities trading operation for the year, while the turnover and net loss were approximately HK\$49,142,000 and of HK\$2,252,000 respectively for the last corresponding year.

Property Investments

During the year under review, the Group's property investment operation was mainly located in Hong Kong and elsewhere in the PRC.

Hong Kong

A significant portion of the turnover was derived from the letting of the Group's investment properties in Hong Kong. For the year ended 31 December 2002, the Group recorded the rental income and profit of approximately HK\$7,452,000 (2001: HK\$11,114,000) and HK\$6,814,000 (2001: HK\$16,078,000) respectively, representing a decrease of 33% and 58% respectively. Such decrease was mainly due to the continuous softening of the local economy during the financial year. As a result, the Group lowered the asking rental in order to avoid vacancy.

The Group's portfolio of leasing properties was satisfactory and substantially all the Group's investment properties were rented out for the year ended 31 December 2002. The Group's properties at Wing Fai Centre and Wing Fok Centre in Fanling, Hong Kong and car parking spaces at Carado Garden in Shatin continued to provide a stable rental income and cash inflow for the Group during the year under review.

During the year, the Group purchased two adjoining units in the Far East Finance Centre, Admiralty, Hong Kong with total consideration of approximately HK\$22 million. Such properties were initially letted out for rental income and were subsequently used as the Company's head office.

BUSINESS REVIEW (cont'd)

Property Investments (cont'd)

Shanghai, the PRC

During the year under review, the Group disposed of several investment properties in Shanghai since the Board considered that the investment returns were below expectations. The details of disposal were as follows:

In October 2002, the Group disposed of all of the units in Bright City to an independent third party with a total consideration of approximately HK\$59 million. The Group recorded a loss on disposal of HK\$100,000. The reason for the disposal is mainly due to the fierce competition in rental prices on the commercial building in Shanghai, which were significantly lower than the Group expected. In order to maximise the profits and be consistent with the future plans of the Group, the Board decided to use the fund generated from the disposals to invest in other ventures.

In October 2002, the Group disposed of a subsidiary company located in Shanghai which was engaged in the development of the Shanghai Villa Project in the PRC. The Group entered into a sale and purchase agreement with an independent third party in consideration of approximately HK\$64 million for disposal of the Company's 100% interest in the subsidiary and the current account owed by the subsidiary to the Company.

In December 2002, the Group disposed of all of its interest in the investment properties, namely Mandarin City, to an independent third party with a total consideration of HK\$28 million. The Group recorded a loss on disposal of these investment properties of approximately HK\$1,947,000. The Board considered that such disposal was in the best interest of the Group as the market value of Mandarin City had been diminishing which was due to the establishment of many high class villa-type residential apartments around Gubei District, Shanghai, where the Mandarin City is located.

Apart from the above disposals, as at 31 December 2002, the Group still had an investment property project in progress, of which the aggregate amount of investment deposits was HK\$58,720,000. The project is related to the development of a commercial building in Shanghai. It was agreed that upon completion of the project, the developer would transfer the legal title of certain units to the Group and allow the Group to acquire other units at the price at a discount to the market price. As at 31 December 2002, the investment property was close to the completion stage.

Xian, the PRC

Xian, being the major city in the north-western region of the PRC, has become the landmark designated by the PRC Government for major developments in the foreseeable future. In order to tap into the property market in Xian, the Group is currently engaged in two property development projects in Xian.

The first property development project was commenced in 2001 when the Group established a joint venture with a reputable and independent local property developer in Xian, to jointly develop the project. As at 31 December 2002, the total investment costs of the project were approximately HK\$46,768,000. Upon the completion of the project, profits from the sale of properties would be shared between the Group and the joint venture partner on a 30:70 basis. Although the construction progress takes longer time than expected due to the sophisticated landscape figuring work, the Group anticipated a faster progress in 2003.

MANAGEMENT DISCUSSION AND ANALYSIS (cont'd)

BUSINESS REVIEW (cont'd)

Property Investments (cont'd)

During the year under review, the second project of a high class villa-type residential district in Xian commenced. The river harness works, removal works were consigned to a land development company and progressed smoothly. The total costs of development of the project were approximately HK\$94 million. In 2002, the project was the second key project of Xian as ranked by the local government. As a result, the Board believes that remarkable profits will be made upon selling of the investment properties. The Group will closely monitor the progress of the project to ensure that the construction of the investment properties is satisfactory.

PLACEMENT OF NEW SHARES

Due to the large amount of capital investments required for the development of the Group's property development projects, the Group made two shares placements during the year for the settlement of development fee. The details of the placement of new shares are set out as follows:

On 4 July 2002, the Company announced the placing of 228,971,960 new shares of the Company at the subscription price of HK\$0.30 to Xian Tian He Property Development Co. Ltd. for settlement of the project fee for the Group's Xian development project. The shares placement was completed on 11 July 2002.

On 24 July 2002, the Company announced the placing of 231,600,000 new shares of the Company at the subscription price of HK\$0.30 to Shanghai Xin Yin Property Development Co. Ltd. ("Shanghai Xin Yin") for payment of the project fee for the Group's Shanghai development project. The shares placement was completed on 1 August 2002.

DISPOSAL OF AFFILIATED COMPANY

In January 2002, China Wanan Group Limited ("Wanan"), which was jointly-held by the Company and two independent third parties, successfully acquired 29.9% equity interest of The Sun's Group Limited (the "Sun's"; formerly known as Pearl Oriental Holdings Limited) at a consideration of HK\$112 million. Subsequently, there was improvement in the financial position of the Sun's. After considering that profit could be made from the sale of the Company's interest in the Sun's, the Company therefore entered into a sale and purchase agreement (the "Agreement") with Essential Rise Holding Limited in consideration of HK\$62 million for disposal of the Company's equity interest in Wanan and the shareholders' loan owed by Wanan to the Company in June 2002. The disposal constituted a connected transaction under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and was approved by the shareholders of the Company in a special general meeting held on 12 August 2002. The Agreement was completed on 31 August 2002. The Company recorded a profit of approximately HK\$6 million from the disposal.

INVESTMENTS

On 24 December 2002, the Group entered into a sale and purchase agreement ("S&P Agreement") with an independent third part for the acquisition of a 20% interest in Eternal Victory Limited ("Eternal Victory") for a consideration of HK\$95,000,000. However, subsequent to the announcement disseminated on 24th December 2002, the vendor notified the Company that Eternal Victory could not obtain the land use right from the local government authority. As a result, the S&P Agreement was not completed and both parties agreed to terminate the agreement.

MANAGEMENT DISCUSSION AND ANALYSIS (cont'd)

INVESTMENTS (cont'd)

During the year, for the expansion of the Group's existing business, the Group entered into several sale and purchase agreements with independent third parties for investing in a number of corporate entities. These investee companies are mainly engaged in real estates, trading and manufacturing in Shanghai, the PRC. The net asset values of the investee companies are ranging from Rmb200 million to Rmb1,200 million, one of them obtained a credit rating of AAA grade from an independent appraiser. The total amounts for the investments amounted to approximately HK\$216,467,000 (2001: Nil).

PROSPECTS

The impressive economic growth of the PRC puts the country under the spotlight of the world stage. **Shanghai**, being the prime commercial and financial city of the PRC, is particularly experiencing the rapid economic growth. The Group intends to look for investment and acquisition opportunities with growth potential resembles to the Group and to expand its geographical presence by forming strategic and business alliances with business partners in the PRC, especially Shanghai.

The Group is also optimistic about the economic growth of **Xian**, which is the landmark designated by the PRC government in the north-western China region. The Group will continue to focus and closely monitor the progress of the two property development projects in which it has interest. In order to capture the business opportunities arising from the increase in the living standard and the demand for modern real estate in Xian, the Group will actively identify real estate development projects that are of huge potential.

The prolonged period of deflation in **Hong Kong** has hindered the recovery of the property market and it seems that the economic downturn may still persist for some time. The Group's total income is expected to be slightly lower next year due to the softening economy. Nevertheless the Group's financial position will not be affected in the long term. The Group is confident that, amid the current difficulties, the local economy would rebound from the valley. While the Group will continue strengthening the management of its existing projects, it will also continue to reassess its strategy responsively so that it can ride the upsurge when the market revives.

DIVIDEND

The directors do not recommend the payment of a final dividend for the year ended 31 December 2002 (2001: Nil).

CAPITAL STRUCTURE

The Group maintains strong and stable financial position. As at 31 December 2002, the Group had total assets of approximately HK\$746,991,000, comprising non-current assets of approximately HK\$486,212,000 and current assets of approximately HK\$260,779,000, which were financed by current liabilities, non-current liabilities and shareholders' funds of approximately HK\$37,750,000, HK\$58,583,000 and HK\$624,019,000 respectively.

The current ratio decreased from last year's 7.92 to 6.91 for the year ended 31 December 2002. Despite the decrease in current ratio, the Group maintains its strong liquidity position which is able to meet its liabilities when they fall due.

The debt to equity ratio was 0.15 while it was 0.19 last year. The ratio was calculated by dividing the total liabilities of HK\$96,333,000 (2001: HK\$91,514,000) by the total shareholders' equity of HK\$624,019,000 (2001: HK\$494,358,000).

MANAGEMENT DISCUSSION AND ANALYSIS (cont'd)

CAPITAL STRUCTURE (cont'd)

The gearing ratio expressed as a percentage of total bank borrowings to total shareholders' equity was 0.12 for the year ended 31 December 2002 (2001: 0.13).

As at 31 December 2002, the Group did not use any financial instruments for hedging purpose.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flow and facilities provided by its principal bankers in Hong Kong. During the year under review, the Group recorded a net cash outflow of HK\$2,759,000 (2001: inflow of HK\$25,605,000), which led the total cash and cash equivalents to HK\$28,249,000 (2001: HK\$31,301,000) as at the balance sheet date. In the opinion of Board, the cash outflow for the year did not have material effect on the Group's liquidity position.

BORROWINGS AND BANKING FACILITIES

The total bank borrowing of the Group as at 31 December 2002 was approximately HK\$73,764,000, which was denominated in Hong Kong dollar. The bank borrowing mainly consists of mortgage loan granted for the purpose of facilitating the acquisition of investment properties in Hong Kong. The mortgage loan is not at fixed interest rates and is secured by the investment properties of the Group. The analysis of loans and overdrafts has been set out in note 26 to the financial statements.

CAPITAL COMMITMENTS

As at 31 December 2002, the Group had capital commitment of approximately HK\$19,500,000 in respect of capital contribution to a PRC company.

CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as at 31 December 2002.

FOREIGN EXCHANGE EXPOSURE

As the Group's transactions are mostly settled by Hong Kong dollars and Renminbi, the exposure to foreign exchange fluctuation is minimal, therefore the use of financial instruments for hedging purpose is considered not necessary.

PLEDGE AND CHARGE OF GROUP ASSETS

As at 31 December 2002, properties with net book value of approximately HK\$101,520,000 had been pledged to secure mortgage loan (2001: HK\$106,270,000).

HUMAN RESOURCES

As at 31 December 2002, the Group employed 90 full time employees. Employee remuneration packages are structured and reviewed by reference to the nature of the job, market condition and individual merits. The Group also provides other employee benefits which include year end double pay, mandatory provident fund and medical insurance. Total staff costs for the year ended 31 December 2002 were approximately HK\$5.9 million (2001: HK\$5.5 million)