

FINANCIAL REVIEW

The Group's turnover was maintained at HK\$114.7 million, which represented a drop of 3.7% compared to the previous year. Benefit from the pick up of stock and property market during the financial year under review, the Group recorded gain from its investments in stock market, surplus from the revaluation of properties, improvement in and reversal of provisions for doubtful debts, which contributed to the improvement in the loss attributable to shareholders from HK\$267.5 million in the preceding year to HK\$157.7 million in current year.

As a result of cost rationalization and business restructuring, the Group managed to reduce its administrative expenses, selling and distribution costs and financing expenses, in total, by HK\$18.5 million, representing 28% decrease as compared to the corresponding year in 2003.

As at 31 March 2004, the Group had cash at bank and in hand totaled approximately HK\$4.8 million (31 March 2003: HK\$23.0 million) and net assets value of approximately HK\$148.5 million (31 March 2003: HK\$303.2 million).

Proceeds from exercising of share options by employees were HK\$4.8 million for the current year. Interest-bearing bank loans at 31 March 2004 amounted to HK\$128.6 million (31 March 2003: HK\$150.2 million), of which HK\$48.6 million (31 March 2003: HK\$71.9 million) were repayable within one year. The gearing ratio, being the ratio of total bank loans and hire purchase payables of approximately HK\$130.6 million to shareholders' fund of approximately HK\$148.5 million, was about 0.88 (31 March 2003: 0.50).

During the year under review, the Group's business activities and its assets and liabilities were mainly denominated in Hong Kong dollars, Renminbi and US dollars. In view of stable exchange rates between these currencies, the foreign currency exchange risk of the Group is not significant. It is the Group's treasury policy to manage its foreign currency exposure whenever its financial effect is material to the Group.

As at 31 March 2004, a time deposit of HK\$9.0 million, a property held for redevelopment at a revalued amount of HK\$45.0 million, an investment property at a valuation of HK\$13.0 million and the Group's interest in a joint venture with a net book value of HK\$131.4 million were pledged to secure the banking facilities granted to the Group.

INVESTMENTS

During the year under review, the Group continued to review its long term investments, in particular, Well Pacific Investments Limited (“Well Pacific”) and Seven Perfect Investment Co. Limited (Seven Perfect”). Because of continuing disputes with the management of Well Pacific, the Group was still unable to obtain any latest financial information about Well Pacific. In view of that, full provision for the investment in Well Pacific was made in the current year. For Seven Perfect which failed to generate cash flows to the Group, the Group proposes to dispose the investment in order to realize the value.

As disclosed in our announcement dated 27 February 2004, the CJV Partner in the Highway 318 had unilaterally decided to relocate the toll station of the Highway 318 (“Toll Road”), which results in significant drop in traffic flows of the Toll Road. The Group has been liaising with the CJV partner for compensation on the loss. As such, an impairment loss of HK\$174.9 million was made during the current year.

On 30 March 2004, the Group entered into a conditional sales and purchase agreement to acquire 9% interest of a company which, through it’s wholly owned subsidiary, holds various lots of land in Po Toi Island, which planned to be developed into resort hotel with golf course (“Acquisition”). The Group also on the same day entered into a conditional subscription agreement to subscribe 41 convertible loan notes issued by that company, which enables the Group to convert into 45% of its enlarged share capital (the “Subscription”). As the related due diligence and feasibility review revealed that the project would be a very complex project and there are numerous outstanding issues relating to various government departments, the directors decided not to proceed with the Acquisition and Subscription.

CONTINGENT LIABILITIES

As at 31 March 2004, the Company had contingent liabilities in respect of corporate guarantees given to banks in connection with the banking facilities granted to certain subsidiaries amounting to approximately HK\$151.9 million (31 March 2003: HK\$115.1 million), subject to unlimited amount to two subsidiaries (31 March 2003: one subsidiary) to which the bank may renew the limit from time to time. As at 31 March 2004, the total amount utilized by the subsidiaries was approximately HK\$38.4 million (31 March 2003: HK\$28.5 million).

LITIGATIONS

- (1) On 24 September 2003, the Company received a writ of summons from the High Court of Hong Kong, in which Messrs. Jinlin Sun (孫進林先生) and Wen Lin (林文先生) (the "Plaintiffs") sued the Company and its existing directors and ex-directors (the "Defendants") for breach of various duties owed to the Company and claimed against the Defendants for (a) damages to be assessed; (b) an account of profits made by the Defendants and that all sums found due upon such account be paid by them to the Company; (c) the existing directors of the Company be removed from the board of directors of the Company; (d) an order that a receiver and manager be appointed to preserve and safeguard the assets and undertaking of the Company; (e) interest; (f) further and/or other relief; and (g) costs.

The Plaintiff's claim (d) was dismissed on 13 October 2003 and the Plaintiffs were ordered to pay the cost of HK\$862,000 to the Company on 5 July 2004. In relation to the main action of the legal proceeding, the Defendant Directors filed their defence on 22 December 2003. The Plaintiffs have stayed all their action in relation to the main action since then.

- (2) In June 2003, 海南萬眾實業投資有限公司("海南萬眾") sued 武漢盛達房地產開發有限公司("盛達房地產") and Sheng Da Investment Holding (Hong Kong) Limited ("Sheng Da") for repayment of a debt in the sum of RMB19,270,000, interest thereon and legal costs (the "Case"). Both 海南萬眾 and 盛達房地產 are companies incorporated in the PRC and independent to the Company. The reason for Sheng Da to be involved in the Case was that 海南萬眾 alleged that 盛達房地產 held shareholding interest in and had a receivable due from Sheng Da. On 22 August 2003, the court of Hainan issued a Notice of Assistance in Execution against Wuhan Dongseng Highway Building Development Co. Limited, in which Sheng Da has 48.67% shareholding interest, requesting for retaining the dividend to be distributed to Sheng Da up to RMB19,270,000 ("Retained Amount") until the dispute is resolved.

The Director understand that there was no business relations between 盛達房地產 and Sheng Da since 1997, in which year the Company began to have an interest in Sheng Da. The Case related to three existing shareholders ("Old Shareholders") of Sheng Da, who in total currently holds 44.32% interest in Sheng Da and have been being the shareholders before the Company initially acquired any interests in Sheng Da in 1997. The Old Shareholders have provided the Company an undertaking that they will bear any liability arising from the Case in view of the fact that the subject of the Case took place before the Company had an interest in Sheng Da (the "Undertaking").

LITIGATIONS *(Continued)*

The Directors consider that:

- (i) the subject of the Case was to claim for receivable due from 武漢盛達 to 海南萬眾 and Sheng Da shouldn't be claimed for;
- (ii) through the provision of the Undertaking, there will be no material adverse financial impact to the Company. Any further dividend or distribution payable to the Old Shareholders shall be retained by Sheng Da to set off the Retained Amount.

STAFF

As at 31 March 2004, the Group employed 55 employees (2003: 75). Remuneration packages are generally structured by reference to market terms and individual merits. Salaries are reviewed annually based on performance appraisal and other relevant factors. Staff benefits plans maintained by the Group include medical insurance, hospitalization scheme, mandatory provident fund and share option scheme.