

Management Discussion and Analysis

The Directors wish to set out below the review of the Group's business activities for the year ended 31 December 2004 and the overview of the Group's objectives in the year ahead.

Change of Company's name

Pursuant to a special resolution passed in the annual general meeting of the Company on 28 May 2004, the shareholders had approved the change of the Company's name from Singapore Hong Kong Properties Investment Limited to Landune International Limited. The new name was then approved by the Registrar of Companies in Hong Kong and the "Certificate of incorporation on change of name" was issued to the Company on 16 June 2004 whereupon the new name became effective immediately.

Corporate Results

The Group recorded a turnover of HK\$30,977,000 in the current year which represented an increase of 221% to the turnover in last year. Out of such amount, HK\$12,061,000 was derived from property investment segment which comprised the consideration realised on the deemed disposal of a property to a bank of HK\$10,600,000 as part of the debt restructuring exercise (proceeds on disposal of properties in last year amounted to HK\$8,400,000) and rental income of HK\$1,461,000. The remaining turnover amount of HK\$18,916,000 was generated by the health products segment newly established in July 2004. The properties rental income alone reflects a slight improvement of 25% in comparing with last year. The increase fairly reflected the general recovery of the local properties market in particularly from the darkest stage in the early part of 2003 caused by the outbreak of Severe Acute Respiratory Syndrome.

Result attributable to shareholders turnaround from a loss of HK\$36,162,000 in last year to a profit of HK\$132,974,000 in the current year as a result of approximately HK\$145 million gain resulted from the waiver of certain loan principals and interests accrued thereto arising from the debt restructuring exercises that was completed in March 2004. In addition, the health products segment also contributed a net profit of HK\$1,827,000 in its first year of operation. The gain derived above was partly offset by the impairment loss of the properties held for resale of HK\$3,620,000 and the general listing and administrative expenses of around HK\$6,141,000 (last year: HK\$5,702,000).

As a result of the debt restructuring exercises, the Group had substantially reduced its total borrowings and thereby sharply scaled down its interest expenses to HK\$3,419,000 (last year: HK\$28,420,000)

Dividend

The Board has resolved not to recommend the payment of any dividend for the year ended 31 December 2004 (2003: HK\$Nil).

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Financial Resources and Liquidity

Issue of shares

As reported and announced in early 2004, the Group had successfully undergone a series of capital transactions that involved the issuance of new shares through private placement and loan capitalisation as detailed below:

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 pursuant to the settlement arrangement and the remaining amount as general working capital and for future investment purposes.

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.

Borrowings

The Group's total borrowings (excluding trade and other payables) amount to HK\$11,137,000 as at 31 December 2004 which represented a sharp decrease of 95% from the total borrowings of HK\$230,491,000 as at 31 December 2003. The reduction was resulted from the loan capitalisation and the settlement arrangement with the financial creditors as stated above.

During the year, the Group had paid off all the indebtedness due to the past financial creditors through the proceeds obtained from the issuance of shares and that of a new installment loan of HK\$5 million from a financial institution. As at 31 December 2004, the properties portfolio with carrying value of HK\$16,880,000 had been pledged to the financial creditors as security for the indebtedness of around HK\$6.2 million.

Current Ratio

The current ratio is now 1.27 which showed a substantial improvement from 31 December 2003 of 0.14. Taking into consideration the improved financial position of the Group and the substantial reduction of borrowings, the directors are of the opinion that sufficient working capital are available to fulfill the financial obligations when they fall due and to meet the future funding requirement of the Group.

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Investment

The Group has established two new joint ventures in Hong Kong in March 2004 with an effective interest of 70% in each of them. One of such joint venture has established a wholly-owned subsidiary, Fuzhou Landun Science of Life Co., Ltd. ("Fuzhou Landun") in Fuzhou City of the People's Republic of China ("PRC") in June 2004 with an initial registered capital of HK\$5 million. The investment amount shared by the Group amounted to HK\$3.5 million and was financed through internal resources. To cope with the development of Fuzhou Landun, the registered capital was further increased to HK\$10 million and the Group has not yet injected its share of the additional investment amount of another HK\$3.5 million. Since establishment, Fuzhou Landun is engaging in the manufacturing, sales and distribution of health products in the PRC.

The other newly established joint venture is in the process of establishing a sales and marketing company in the PRC and such application is still pending the approval from the relevant PRC governmental bodies.

Review of Operations, Outlook and Strategy

Exchange rate exposure

As at 31 December 2004, Renminbi and HK dollar accounted for 14% and 86% of the Group's total bank balance respectively.

As majority of the sales, purchases, assets and liabilities committed by the health products segment of the Group were mainly in Renminbi, the Group is subject to a certain level of exchange rate exposure. However, as the exchange rate of Renminbi to HK dollar was relatively stable and there had not been any material conversion issue, the Board considered the Group's exposure to foreign exchange risk remained relatively low.

Staff and Remuneration Policy

The number of employees (including Directors) as at 31 December 2004 has been increased to 43 persons (last year 11 employee) as a result of the establishment of the new health products segment.

The Group recruits and promotes individuals based on merits and their development potentials for the positions offered. Remuneration package is determined with reference to their performance and the prevailing salary levels in the market. In addition, the Group operates a share option scheme for eligible employees (including Directors) to provide incentive to the participants for their contribution and continuing efforts to promote the interests of the Group.

Business Review, Corporate Strategy and Outlook

During the year of 2004, the property market in Hong Kong in particular the retail sentiment improved continuously. The Group has thereby recorded a higher rental income than last year. The Board expected that the retail leasing market will remain stable for the coming year and the Group may benefit positively therefrom. On the residential forefront, the market appears to be overheated owing to the speculating activities in the first hand market in particular those related to high end properties. The Board is very cautious about this market situation and is examining different scenario of realising its property re-development project and will timely inform its shareholders about its decision in this regard.

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The initial performance of the health products segment is both promising and encouraging. However, the Board also realises the intense competition and price pressure associate with this market segment. The Board believes that considerable time and effort will be taken in determining and fine tuning the mode of operation and scope of activities undertaking by this segment. The Board will continuously exploring other investment opportunities associated with this industry both vertically and horizontally such that the Group can enlarge its presence in the industry in an aggressive but healthy manner. The Board will also keep abreast of the changing industrial and business policy adopted by the central government in particular those apply to Hong Kong entities such that the Group will be able to capture and realise such opportunities for the long term development of the Group.

2004 is a very remarkable year for the overall development of the Group as it successfully turnaround from the past financial burden and is able to re-engine itself with the fresh capital injected by the new investors. The Board is highly optimistic about the future prospect of the Group and together with the business connection and market recognition of the controlling shareholders, it believes that the Group can return to profitability in the very near future.

The Board owes a lot of gratitude to the Group's bankers, creditors, management and staff for their continuing support and looking forward to working on together for the new era of the Group.

On behalf of the Board
Ha Shu Tong
Managing Director

Hong Kong SAR, 25 April 2005