CHIEF EXECUTIVE OFFICER'S REVIEW

FINANCIAL REVIEW

Results for the Year

During the year under review, the Group focused on property investment and building management businesses in Hong Kong.

The Group recorded a turnover of approximately HK$52.4 million, representing a decrease of 59.8% as compared to last year. The drop in turnover was mainly due to the disposal by the Group of the biscuits manufacturing business in Guangzhou, the P.R.C. in September 1999, and accordingly, the results of the Guangzhou biscuits factory ceased to be consolidated into the results of the Group as from the date of disposal.

The loss attributable to shareholders for the year was approximately HK$37.8 million (1999: HK$23.5 million) as the Group's results were adversely affected by the diminution in values in its properties. The deficit arising on revaluation of the Group's investment properties, the impairment in value of the Group's leasehold properties, and the drop in market value of the properties held for sale amounted to approximately HK$26.3 million, HK$13.9 million and HK$2.4 million, respectively, of which approximately HK$35.4 million has been charged to the income statement. The loss per share was HK9.43 cents (1999: HK6.04 cents).

Financial Resources and Liquidity

Borrowings and Charge on Group Assets

The Group's total borrowings were reduced from approximately HK$103.5 million as reported in last year to approximately HK$82.2 million as at year-end. The proportion of borrowings mature within one year to the total borrowings also decreased from 72% to 70%, thereby relieving the repayment pressure to a large extent. In view of the satisfactory maturity profile of the borrowings, the Group intends to finance its capital expenditure commitments at July 31, 2000 by internal resources.

As at July 31, 2000, certain properties and listed securities of the Group with a total net book value of approximately HK$91.4 million have been pledged to banks to secure banking facilities granted to the Group.

With respect to the interest rate structure of the borrowings, most of them were in line with the best lending rate except for a small portion being based on Hong Kong Inter-bank Offer Rate. As interest rate is expected to be dropped in future, the management considers that fixed interest rate borrowing is not attractive at this point of time.

Gearing Ratio

The gearing ratio decreased from 30.0% to 27.2%. This level is considered satisfactory within the property investment and development industry. Computation is based on the total borrowings of the Group divided by shareholders' funds of the Group as at July 31, 2000.

Exchange Rate Exposure

In fact, all of the Group's cash and cash equivalents were held in Hong Kong dollar and the borrowings were also made in Hong Kong dollar to avoid exchange rate fluctuations.

Except for the properties held for sale and development in Japan and the P.R.C., respectively, all assets, liabilities and transactions of the Group are denominated in Kong Kong dollar. As the exchange rates of Japanese Yen and Renminbi against Hong Kong dollar were relatively stable during the year, the Group was not exposed to material exchange risk.

Ageing Analysis

More than 90% of the Group's trade receivables were settled within 60 days for both years and this ensured sufficient cash inflow to meet the needs of daily operations.

There were no material changes in the age profile of trade payables of the continuing business.

Current Ratio

The current ratio improved from 1.10 to 1.31. The directors are of the opinion that the Group has sufficient liquid assets to maintain daily operations.

Subscription Agreement

In August 2000, the Company entered into a subscription agreement to issue 80,399,926 new ordinary shares of the Company to Rocket High Investments Limited, a company beneficially and wholly owned by a director of Far East Consortium International Limited, a substantial shareholder of the Company. This transaction was completed in October 2000 with part of the net proceeds being applied to reduce the Group's bank borrowings and the remaining amount retained for future investment purposes.

Contingent Liabilities

As at July 31, 2000, save for a corporate guarantee to the extent of HK$20 million issued by the Company in favour of a bank for securing banking facilities made available to a subsidiary, there were no other significant contingent liabilities.

BUSINESS REVIEW

Significant Investments

The Group holds approximately 26.6 million shares in Far East Consortium International Limited, a listed company in Hong Kong, and a 49% interest in a property management company in Hong Kong.

During the financial year, market value of the listed shares decreased by approximately 30% and a dividend amounted to approximately HK$0.5 million was received.

The property management investment made a profit contribution of about HK$2.0 million before tax and the results of which were included in the "Share of Results of Associates" in the financial statements.

Material Acquisitions and Disposals

In the past year, the Group disposed of its entire interests in a property development company in Wuhan, the P.R.C., and a food manufacturing company in Guangzhou, the P.R.C., to the respective minority shareholders for cash consideration of approximately HK$3.7 million and HK$21 million, respectively. The Group made no material acquisition during the year.

Segmental Information

Property Investment

The Group holds a 15.33% interest in a parcel of land known as Fung Lok Wai in Yuen Long, Hong Kong with a site area of approximately 8.6 million sq.ft. and Cheung Kong Group has a majority stake in the land. The proposed amendment to zoning was gazetted in March this year and it is expected that Cheung Kong Group will shortly commence the environmental and ecological impact assessments as required under the Environmental Impact Assessment Ordinance.

The Group also holds several parcels of land with an aggregate site area of approximately 6.2 million sq.ft. in Nagoya, Japan. It is intended that the land be held for development purpose or for sale subject to market conditions. A provision for diminution in value of approximately HK$2.4 million has been made for the year.

Investment Properties

The Group's investment properties comprise mainly office and shop units in Hong Kong.

Rental rates remained under pressure in the financial year under review resulting in a decrease of rental income by a further 8% as compared with last year. Nonetheless, the occupancy rate of the properties has been maintained at a satisfactory level.

Property Development

In September 1999, the Group disposed of its entire interest in a property development company in Wuhan to the joint-venture partner at a consideration of approximately HK$3.7 million. The loss upon this disposal of approximately HK$1.8 million had been fully provided for in the financial statements of last year.

With respect to the remaining property development project in Nanjing, the P.R.C., the directors intend to seek for new investors or partners for joint development.

Property Management

The property management business in Hong Kong sustained a steady growth. Turnover increased by 2% as compared with last year, while the profit before taxation amounted to approximately HK$1.2 million as against the loss of approximately HK$2.7 million incurred last year.

Food Manufacturing

During the year, the Group disposed of its entire interest in the biscuits manufacturing business in Guangzhou to the joint-venture partner at a consideration of approximately HK$21 million. As a result of the disposal, the Group's food manufacturing business was discontinued.

Since no significant improvement in the food manufacturing business can be envisaged in the foreseeable future, the directors believe that this disposal was made in the best interest of the Group. The loss in the sum of approximately HK$26.9 million had been fully provided for in the accounts of last year.

EMPLOYEES

The number of staff as at July 31, 2000 was 313, representing a 3% increase over the last year. Nevertheless, salaries and wages were maintained at a level similar to last year. In addition, operational efficiency of both the accounting and property management functions has been improved with the implementation and enhancement of management information system. It is the Group's intention to employ more part-time staff in place of permanent staff to reduce the fixed overheads.

An employees' share option scheme was adopted on March 7, 1997, pursuant to which the Board of Directors of the Company may grant options to eligible employees, including directors, of the Company and its subsidiaries, to subscribe for shares in the Company.

OUTLOOK

The continual fall in property values has a negative impact on the Group's results and the directors believe that the property market will remain at a flat level in the short term.

Subsequent to the year-end, the Group entered into various conditional agreements to dispose of several investment properties and its entire interests in two property investment companies at an aggregate consideration of approximately HK$52.8 million with a view to setting aside funds for new investment opportunities.

In November 2000, the Company entered into a conditional sale and purchase agreement whereby the Company disposed of its entire interests in a property investment company and a property management company together with cash consideration of HK$78 million in exchange for a 40% stake in an internet communication business. Full details of the transaction were disclosed in an announcement of the Company dated November 6, 2000. The directors consider that the asset swap is an attractive opportunity for the Group to diversify into the internet and telecommunication businesses, which paves the way for the Group to open up new sources of revenues.

In this new era of rapidly changing technologies, the directors will pursue investments with considerable growth potential and re-position the Group to achieve a long-term growth.

YAO HON CHING
Chief Executive officer

Hong Kong, November 17, 2000