BUSINESS REVIEW

For the year ended 31st December 2001, the turnover of the Company and its subsidiaries (the "Group") amounted to HK$341,976,000, representing an increase of 35% as compared with the previous period (adjusted on a pro-rata basis). The increase in turnover was due to the consolidation of the turnover from power plant projects and DVDs manufacturing. The loss for the year was HK$14,825,000. This was mainly due to an impairment loss of HK$22,643,000 on a dry bulk carrier, M.V. Jin Feng, which had been in service for more than 18 years.

During the financial year under review, Hong Kong's economy remained sluggish under the negative effect of the global economy. The situation was further aggravated by the September 11th incident. Nevertheless, the economy of the People's Republic of China (the "PRC") stood out among its Asian peers by maintaining a 7% growth rate. With the admission of the PRC to the World Trade Organisation at the end of 2001 and an expectation of a gradual recovery in the US economy in the latter half of 2002, the Group is cautiously optimistic about the economic prospects of Hong Kong in the current year.

Property Development and Investments

As the PRC economy will sustain its high growth, investments in strategically located properties with designated functions will be able to generate sound and stable returns. The Group's investments in property projects in the PRC are mainly located in Beijing and Shanghai, being densely populated major cities.

Shanghai Stock Exchange Building

The Group owns 6 floors occupying a total floor area of 13,848 square metres of the Shanghai Stock Exchange Building located in Lujiazui, Pudong, Shanghai (the "Property"). As at the end of 2001, the Property was fully leased out. The annual rental income for the financial year under review was HK$10,108,000, providing an annual rental yield of approximately 3.3%. As compared with the last period, there was an increase of 77% in the rental income in 2001.

Shanghai Stock Exchange Building, where the Shanghai Stock Exchange is situated, is not merely a property investment project or a commercial office building, but serves as the nerve centre of securities trading in the PRC. The building is expected to have a substantial inherent appreciation potential and encouraging market prospects.

In 2002, approximately one third of the Property's tenancies will be up for renewal. With a steady rise in the rental level of grade A offices in Pudong, it is expected that the Property can generate better investment yield in 2002.

Poly Plaza

The Group owns 75% equity interests in Poly Plaza Limited, whose major asset is Poly Plaza. The building is built on a site area of 19,088 square metres in Dong Er Huan Lu, Beijing (The Second East Ring Road), and has a total gross floor area of 94,649 square metres. The construction work commenced in 1985 and was completed in 1991. Poly Plaza is a comprehensive development comprising a grade A office tower, a four-star ranking hotel tower, a theatre and other ancillary facilities. At the end of 2001, the office tower achieved an occupancy rate of 97%, which is higher than the average occupancy rate of 92% for grade A offices in Beijing. Besides, the theatre had a usage rate of 100%, whereas that of the hotel tower (including catering and conference facilities) was 94%, which is higher than the average occupancy rate of 85% for the other 54 four-star or higher ranking hotels in Beijing.

Although the PRC was admitted as a member of the World Trade Organization at the end of 2001, it is unlikely that the demand for grade A offices in the PRC will substantially increase in the near future. In anticipation of an increase in supply of grade A offices in Beijing in 2002, the rental income of Poly Plaza are expected to be under pressure and the vacancy rate may rise in the year.

Currently, there are 54 four-star or higher ranking hotels in Beijing. With the hosting of the 2008 Olympic Games, it is anticipated that the number of star-ranking hotels in the city will increase substantially and competition in the hotel industry will become more intense in the future.

The gross profit of Poly Plaza for 2001 was RMB47,005,000, with a 12.7% annual gross profit return on investment.

Beijing Legend Garden Villas

Beijing Legend Garden Villas is a large-scale up market European villa development at the neighbourhood of Beijing's Capital Airport. The property was completed in 1992, occupying an area of 166,843 square metres. The Group owns 20 houses and 37 apartments in the project.

In 2001, there were 14 new projects, with a gross floor area of over 420,000 square metres, completed in the vicinity of Beijing Legend Garden Villas. As such, the villas suffered from a decrease in rentals and its occupancy rate as at 31st December 2001 was 37%. Since Beijing Legend Garden Villas was completed in 1992 and has been in use for ten years, its furnishings and facilities are relatively dated as compared with the new neighbouring developments. On the other hand, since its location is quite remote from the city centre, its cost of living is relatively higher. All these factors contribute to weaken the market competitiveness of Beijing Legend Garden Villas. The Group will consider the disposal of the apartment units when suitable opportunity arises.

Power Plant Projects

During the financial year under review, the equity interests held by the Group in Shengzhou Xinzhonggang Thermal Power Co., Ltd. ("Shengzhou Power") was increased from 26% to 52%. This was due to the acquisition by the Group of the 26% beneficial equity interests in Shengzhou Power from an Australian power company in October 2001. Shengzhou Power owns and operates a 28.5 megawatt cogeneration power plant, and its total assets amounted to approximately RMB209,825,000. For the year ended 31st December 2001, Shengzhou Power realized a net profit of RMB5,088,000.

The Group also holds 51% equity interests in Taicang Xinhaikang Xiexin Thermal Power Co., Ltd. ("Taicang Power"), a cogeneration power plant with a total capacity of 30 megawatt. The total assets of Taicang Power amounted to approximately RMB282,627,000. For the year ended 31st December 2001, Taicang Power realized a profit before the transfer to three PRC statutory reserves of RMB4,774,000.

Shipping

Owing to the global economic downturn, the dry bulk carriers market hit a new trough in 2001. The Baltic Freight Index, an index for dry bulk carrier chartering, fell by 723 points (45.2%) from the beginning of 2001 to 876 at the end of the year. For the financial year under review, the shipping business of the Group recorded a profit before the impairment loss for deficit on revaluation of approximately HK$5,769,000.

At 31st December, 2001, the Group owns 3 bulk carriers, with a total dead weight of 180,000 MT. In order to lower the average carrier age of the fleet, the Group entered into a memorandum of agreement with a third party buyer in March 2002 in respect of the sale of M.V. Jin Feng, which had been in service for 18 years, for a consideration of HK$35,685,000. An impairment loss of HK$22,643,000 on M.V. Jin Feng was accordingly provided in the accounts for the financial year under review. After the disposal, the shipping business will account for a smaller portion among the investments of the Group.

Polystar Digidisc Co., Ltd. (“Polystar”)

The Group owns 66% equity interests in Polystar. For the year ended 31st December 2001, Polystar recorded a profit of RMB8,994,000, of which RMB5,936,000 was attributable to the Group.

Currently, Polystar has two CD production lines and two DVD production lines. The DVD production lines are capable of manufacturing high quality DVD-9s. Polystar’s niche is focused on the high-end market. At present, it has already established cooperative relationship with internationally-renowned manufacturers such as IBM, Acer, Hewlett Packard and Legend and it manufactured digital disks for the above-mentioned clients. In 2002, the Group will consider the possibility of expanding the production capacity of Polystar and will undertake feasibility studies on setting up new production lines for DVD-9s and master stampers.

The Operation of New Satellite TV Cartoon Channel (“New Cartoon Channel”)

The operation of the New Cartoon Channel is a strategic move of the Group in exploring the cultural/mass media industries in the PRC. The New Cartoon Channel has completed preparatory work for its production base in the PRC and broadcasted television programs in the Asia Pacific region via satellite. The New Cartoon Channel will produce its own featured productions in 2002 in an attempt to enhance the degree of specialty, entertainment and trendiness of its programs; with a view to enriching the broadcasting contents of the channel. Subject to approval being obtained from the relevant Chinese government authorities in 2002, the New Cartoon Channel will be allowed to broadcast cartoon entertainment programs into authorised areas and channels in the PRC.

Value-added software business

The Group acquired 25% equity interests in Skywin China Ltd. (“Skywin”) for a consideration of approximately HK$75,000,000 at the end of December 2001. Skywin is primarily engaged in the provision of value-added services, such as application software systems development, systems integration and technical maintenance to the tele-communications sector in Guangdong province.

By the end of December 2001, Skywin has developed a number of business operations systems, business support systems, monitoring systems and management systems for China Mobile, China Telecom, several commercial banks and the civil aviation administration authorities in Guangdong. It is believed that the acquisition of Skywin will generate sound investment returns for the Group and will have capital appreciation potential.

Insurance

The Company and Winterthur Swiss Insurance Company is respectively holding 48% and 52% equity interests in Winterthur Insurance (Asia) Limited ("Winterthur Asia"), a company incorporated in Hong Kong principally engaged in the non-life insurance business in Shanghai through its Shanghai branch.

Winterthur Asia recorded a turnover of approximately HK$49,000,000 and a loss of approximately HK$2,600,000 for the financial year under review. With the accession of the PRC to the World Trade Organisation, the PRC's insurance market is on the road to deregulation. The Company managed to stay ahead of competition by forming a strategic alliance with a leading international insurance player. The combined competitive edges of the Group and Winterthur Swiss Insurance Company will help the Group to manoeuvre for position in the insurance market of the PRC which is expected to have substantial market potential.

Strategic Investments

As at 31st December, 2001, the Group owned approximately 46% shareholding in Poly Investments Holdings Limited ("Poly"). The principal activities of Poly are engaged in the manufacturing and trading of chemical fibres, property investments, securities investments and financial services. During the year under review, Poly recorded a loss for the year amounting to HK$26,070,000.

LIQUIDITY AND CAPITAL STRUCTURE

As at 31st December 2001, the shareholders' funds of the Group amounted to HK2,215,000,000 (31st December 2000: HK$2,223,000,000), while the net asset value per share was HK$2.73 (31st December 2000: HK$2.71). As at 31st December 2001, the Group's gearing ratio (on the basis of the amount of total liabilities less bank balances divided by shareholders' funds) was 31.7% (31st December 2000: 16%).

As at 31st December 2001, the Group had outstanding bank loans of HK$352,779,000. In terms of maturity, the outstanding bank loans can be divided into HK$162,042,000 (46%) to be repaid within one year, HK$149,436,000 (42%) to be repaid after one year but within two years, HK$41,301,000 (12%) to be repaid after two years but within five years. In terms of currency denomination, the outstanding bank loans can be divided into HK$232,230,000 (66%) in Renminbi and HK$120,549,000 (34%) in US dollars.

About two third of the bank borrowings of the Group are subject to fixed interest rates and the remaining one third are subject to floating interest rates. Therefore, under circumstances of interest rates uncertainty or fluctuations or otherwise as appropriate, the Group will consider the use of hedging instruments (including interest rates swaps), in order to manage interest rate risks.

As at 31st December 2001, the Group had working capital of HK$61,000,000 and bank balances of HK$187,000,000 (31st December 2000: HK215,000,000 and HK$369,000,000 respectively). In view of the Group's current cash balances, available banking facilities and cash revenue from business operations, it is believed that the Group has sufficient resources to meet the foreseeable working capital demands and capital expenditure.

The monetary assets and liabilities and business transactions of the Group are mainly carried out and conducted in Hong Kong dollars, Renminbi and US dollars. The Group maintains a prudent strategy towards its foreign exchange risk management, where foreign exchange risks are minimized via balancing the monetary assets versus monetary liabilities, and foreign exchange revenue versus foreign exchange expenditures. Besides, as the Hong Kong dollar is linked to the US dollar, and the exchange rate between Hong Kong dollar and Renminbi also fluctuates slightly, the Group believes that its exposure to foreign exchange risks is not material.

PLEDGE OF ASSETS

As at 31st December 2001, bank deposits amounting HK$28,580,000 (31st December 2000: HK$13,407,000), certain of the Group's investment properties of approximately HK$312,000,000 (31st December, 2000: HK$301,725,000), other property interests and motor vessels with an aggregte net book value of approximately HK$1,224,825,000 (31st December 2000:HK$1,000,067,000) and shares in certain subsidiaries and an associate were pledged to secure credit facilities granted to the Group.

CONTINGENT LIABILITIES

At 31st December, 2001, the Company had given guarantees of approximately HK$120 million (31st December, 2000: HK$ 142 million) to certain banks in respect of banking facilities granted to certain subsidiaries of the Company.

In addition, at 31st December, 2001, the Group had given a guarantee of approximately HK$14.3 million (31st December, 2000: HK$14.3 million) to a bank in respect of credit facilities granted to prospective purchasers of properties developed by a jointly controlled entity of the Group.

STAFF

As at 31st December, 2001, the Group employed about 1,000 staff with remuneration for the year amounting to approximately HK$57,000,000. The Group provides its staff with various benefits including year-end double-pay, discretionary bonus, contributory provident fund, share options and medical insurance. Staff training is also provided as and when required.

PROSPECTS

Facing the changing economic conditions, the Group will continue its prudent operating strategy. As for the existing operations, the Group will further strengthen its operation management and risk control, improve management quality and lower operating cost so as to perfect its corporate management. Meanwhile, the Group will continue to take a prudent approach towards new investment projects, which must meet with criteria including attractive return, stable income and low risks.