

Management Discussion and Analysis

Financial Review

The Group's turnover increased modestly by 1.6% from HK\$119,867,000 to HK\$121,746,000 for the year ended 31 December 2001. Net profit for the year was HK\$1,379,000, a remarkable improvement in comparison with last year's net loss of HK\$46,051,000.

As at 31 December 2001, the Group had an aggregate amount of HK\$30,797,000 (2000: HK\$64,120,000) of cash, bank deposits, securities and fund investments mainly denominated in Hong Kong dollar and Renminbi, and HK\$61,003,000 (2000: HK\$70,200,000) of short term bank borrowings and other loans mainly denominated in Hong Kong dollar and Renminbi. Interests on most bank borrowings were charged on fixed rate or certain basis points over prime rate.

The Group's gearing ratio (based on total long term liabilities divided by total capital employed on the balance sheet date) was 0.59 (2000: 0.48). Leasehold lands and buildings of HK\$6,500,000, bank deposits of HK\$12,675,000 and fund investment of HK\$2,768,000 were pledged to secure banking facilities granted to the Group. In addition, legal charge on all issued shares of International Management Company Limited and legal charge on the 49% joint venture rights in Wuhan Plaza Management Co. Ltd. have been pledged to secure a bank loan of HK\$40,000,000.

There was neither foreign currency hedging activity nor financial instrument for hedging purposes during the year.

Business Review

(a) *Construction and related businesses*

Construction industry in Hong Kong experienced a tough time in 2001 and suffered further as the local business environment was hard hit by the prolonging recession in United States and the Asian Pacific region. Global economic slowdown while oversupply of residential units and prime office floor area kept the local property market at the trough. However, through strict cost supervision, total quality control and prudent selection of projects, the Group achieved comparably stable performance in the PRC and Hong Kong. Meanwhile, it was quite satisfactory that no substantial provision was made to any project.

(b) *Properties for investment/for sale*

The income from property investment derived mainly from the rental income of the office units and apartment units in the Wuhan Plaza. Due to the oversupply of grade A office building and residential units in Wuhan and central China, the selling price and the rental faced a slowdown and the occupancy rate experienced a slight drop in comparison with the level of last year. For the period under review, an impairment provision of HK\$31 million was made for the properties of the Group, bringing in a relatively large negative effect to the return of investment and the results as a whole.

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(c) Retail and management business

Along with the economic growth of the PRC, Wuhan Plaza Management Co. Ltd. (hereafter referred to as “WPM”), supported by all the staff, achieved another record high in term of turnover. In spite of the expiration of tax preferential period, WPM recorded an encouraging 16% increase in net profit after tax this year. Moreover, the expansion plan is going vigorously, and it is expected to bring another stable and impressive source of earning for the Group in the coming years.

Conclusion and outlook

To sum up the results of this year, in spite of a backdrop of a slack external economic surrounding and a weak local property market, the Group recorded a turnaround effect from loss to profit. Hopefully when the ordeal over, Hong Kong and the global economy will rebound robustly next year. The Group is expected to be benefited from it. In addition, the Group’s large scale construction projects are expected to commence in the middle of this year to bring a better return to the shareholders.

Explanation to the Qualified Report of the Auditors

The properties for investment/for sale were valued by the directors according to their operating experience in the PRC and knowledge of Wuhan local market, which differs from an independent professional valuation performed by valuers of the Group. Details of the valuations and qualified opinion please refer to the Report of the Auditors and note 15 set out in the audited financial statements.

Contingent liabilities

For details of the contingent liabilities of the Group, please refer to note 37 set out in the audited financial statements.

Share Option Scheme

For details of the Share Option Scheme, please refer to relevant notes set out in the Report of Directors and the audited financial statements.

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Purchase, sale or redemption of listed securities

During the year ended 31 December 2001, the Company purchased certain of its shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The summary details of which are as follows:

Month	Number of Shares purchased	Price per share		Total price paid HK\$
		Highest HK\$	Lowest HK\$	
October 2001	<u>792,000</u>	<u>0.60</u>	<u>0.57</u>	<u>458,300</u>

Save as mentioned above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

Employees and remuneration policy

As at 31 December 2001, the Group employed approximately 362 staff in the PRC and Hong Kong.

Employees are remunerated based on their work performance, professional experiences and prevailing industry practices. The remuneration policy and package of the Group's employees are periodically reviewed by the management. Apart from pension funds and in-house training programs, discretionary bonuses and share options are granted to certain employees according to the assessment of individual performance.