

Chairman's Statement

On behalf of the Board of Directors, I would like to present the activities and the results of the Group as follows:—

BUSINESS REVIEW AND PROSPECTS

Results

During the year ended 31 December 2002, the turnover of the Group decreased to HK\$180.7 million as compared to that of HK\$194.4 million for the year ended 31 December 2001. The loss attributable to shareholders of HK\$199.4 million represents a decrease of 39.9% as compared with a loss of HK\$331.6 million for the year ended 31 December 2001. The loss per share was HK6.5 cents as compared with HK45.8 cents for the corresponding year ended 31 December 2001.

Review and outlook

During the year, faced with the continuous economic downturn in Hong Kong, the Group continued to focus its efforts on the core businesses of property investment and provision of brokerage and financial services. Through the subscription of new shares in the Group's financial-service arm, Hennabun Management Inc. (the "HMI Group") in August 2002, the Group has increased its shareholdings in HMI Group to approximately 93.04%. During the year, about 60.7% of the Group's turnover was contributed by HMI Group. For the businesses of provision of brokerage and financial services, an operating profit (before net provision for bad and doubtful debts) of HK\$26.8 million was contributed therefrom during the year under review. For the property investment segment, due to the persistent drop in the level of rental and occupancy rate in the property market, excluding the net loss on disposals of investment properties of about HK\$1.3 million and the net deficit arising on revaluation of the investment properties of about HK\$38.9 million, an operating loss (before financial costs) of HK\$0.7 million was incurred during the current year. Given the current state of the property market, the Group is looking to reduce its property portfolio by disposing properties if and when the opportunity arises. As for the investment in trading securities, due to the weakness of the stock market and the continuing bearish sentiment on the economy, the activity in the investment in trading securities maintained at more or less the same level of HK\$105 million for the year under review as compared with that of HK\$113.4 million for the year ended 31 December 2001. The net increase in the market value of the portfolio of the listed investments held by the Group resulted in the increase in the operating profit from investment in trading securities to approximately HK\$54.3 million for the current year as compared with a loss of HK\$25.3 million for the corresponding year ended 31 December 2001.

The weak economy in the United States of America after the September 11 compounded by the war on Iraq may have significantly pushed back the recovery pace of the economy. In Hong Kong, the economy is damaged by the outbreak of the Severe Acute Respiratory Syndrome (the "SARS"). The business environment in Hong Kong in the foreseeable future is expected to be difficult. The Group will continue to realize those non-performing assets so as to reduce the burden of servicing debt repayments.

Chairman's Statement

BUSINESS REVIEW AND PROSPECTS *(Continued)*

Liquidity and Capital Resources

During the year, the Company has continued to improve its capital base by completing a Ten for One Rights Issue (after share consolidation), raising a total additional equity of approximately HK\$111.7 million (before issue expenses) in August 2002.

As at 31 December 2002, the Group's total shareholders' funds amounted to HK\$345.5 million compared with HK\$428.4 million at 31 December 2001. As at 31 December 2002, the Group had net current assets of HK\$216 million including cash and bank balances of HK\$26.6 million compared with net current assets of HK\$232.3 million including cash and bank balances of HK\$34.2 million at 31 December 2001. The Group has continued to closely monitor and maintain its capital-debt structure at a stable level of a gearing ratio of 170.7% and current ratio of 1.45 times at 31 December 2002, compared to 162.1% and 1.56 times respectively at 31 December 2001.

As at 31 December 2002, the Group has bank loans and overdrafts of HK\$441.8 million (31 December 2001: HK\$383.6 million), other loans of HK\$84.2 million (31 December 2001: HK\$246.8 million) and convertible notes of HK\$63.8 million (31 December 2001: HK\$63.8 million). However, the Group has recently discovered a bank loan to the extent of approximately HK\$73.6 million is in dispute and is currently seeking legal advice.

As most of the Group's transactions and bank deposits were denominated in Hong Kong dollars, the Group's exposure to foreign exchange risk was minimal.

Pledge of Assets

As at 31 December 2002, certain assets of the Group with an aggregate carrying value of HK\$411 million (31 December 2001: HK\$446.4 million) have been pledged to banks and other financial institutions to secure credit facilities granted to the Group. In addition, interests in and loans to two associates were pledged to secure an outstanding loan and interest repayments payable to a third party.

Contingent Liabilities

As at 31 December 2002, the Company had given corporate guarantees to banks and financial institutions in respect of credit facilities utilized by subsidiaries to the extent of HK\$320.7 million (31 December 2001: HK\$250.5 million).

Employees

As at 31 December 2002, the total number of employees of the Group was 78 (31 December 2001: 71). The Group remunerates its employees based on their performance, working experience and prevailing market standards and reviews their remuneration annually. Staff benefits include a medical insurance coverage, provident fund and a share option scheme. As at 31 December 2002, there are no share options outstanding.

Chairman's Statement

BUSINESS REVIEW AND PROSPECTS *(Continued)*

Prospects

Given the uncertainty as to how the Gulf War might affect the global economy and the effect of the SARS on the local business environment, the coming year is expected to be uncertain and difficult. The Group will continue to be conservative to navigate cautiously through these difficult times.

APPRECIATION

I would like to take this opportunity to thank all the directors and staff for their contribution and support to the Group during the year.

Chuang Yueheng, Henry
Chairman

Hong Kong, 16 April 2003