



# Management Discussion and Analysis

## CAPITAL STRUCTURE

During the year ended 31 May 2001, a total number of 124,624,000 ordinary shares were issued. A total number of 22,000,000 shares were issued to acquire a wholly owned subsidiary Urban Edge and 52,000,000 shares were issued for working capital purposes.

On 17 May 2000, the Group issued an aggregate principal amount of HK\$24,000,000 5.5.% convertible notes due May 2003 of which HK\$18,000,000 were for expanding the building material activities and HK\$6,000,000 were for working capital purposes. On 3 August 2000 and 4 August 2000, 44,296,000 shares and 6,328,000 shares were issued respectively, as all noteholders exercised their rights to convert the notes into shares of the Company.

On 22 January 2001, convertible note of principal amount of HK\$10,000,000 was issued for working capital purposes, which is interest bearing at 8% per annum and convertible in whole or in part at any time before 21 January 2003. No conversion rights have been exercised up to the date of approval of the accounts.

On 5 February 2002, 87,500,000 shares were issued to acquire another wholly owned subsidiary Sky Glory Holdings Limited.

## STAFF AND BENEFIT SCHEMES

As at 31 May 2001, there was 105 full time staff working for the group, of which 45 were engaged in Construction operations, 50 in forest exploitation and timber trading, and 10 in general administration.

The Group operates a Mandatory Provident Fund ("MPF") and a MPF exempted defined contribution schemes. The Group also provides other staff benefits such as medical benefits and subsidies, life insurance, marriage subsidies, company cars and quarters for senior employees.

## OPERATING RESULTS AND ANALYSIS

For the year ended 31 May 2001, the Group's turnover was HK\$295,648,000 (2000: HK\$367,194,000) representing a decrease of 20% as compared to last year. The net loss before taxation was HK\$159,832,000 (2000: profit HK\$6,846,000), of which 70% was attributable to amortisation of concession rights, loss on disposal of fixed assets, revaluation deficits on investment properties, the write-down of recoverable amount of fixed assets, write-off of website development costs and write-off of goodwill.

The decrease in turnover and the turnaround in profit is, inter alia, a reflection of the pro-longed slow down of the construction sector and its deteriorating operating conditions marked with severe competition and rising costs.



## FINANCIAL POSITION

As at 31 May 2001, the Group had total assets of HK\$343,600,000 (2000: HK\$493,529,000), a decrease of 30% as compared to last year. Total liabilities amounted to HK\$204,920,000 (2000: HK\$237,270,000), which comprised short-term borrowings HK\$99,320,000 repayable within one year (2000: HK\$103,959,000), long-term borrowings of HK\$38,116,000 (2000: HK\$47,027,000), and tax liabilities, trade and other payables totalling HK\$67,484,000 (2000: HK\$86,284,000). The net asset value of the Group as at 31 May 2001 was HK\$138,680,000 (2000: HK\$256,259,000). All borrowings were denominated in Hong Kong Dollars.

At 31 May 2001, the Group had a gearing ratio (total borrowings to equity) of 99% (2000: 59%) and a working capital rate (total current assets to current liabilities) of 0.8 (2000: 2.0).

## CONTINGENT LIABILITIES AND OUTSTANDING LITIGATIONS

At 31 May 2001, the Group had contingent liabilities and outstanding litigations set out in details in Note 33 to the accounts.

## DETAILS OF CHARGES ON GROUP'S ASSETS

At 31 May 2001, the net book value of machinery and equipment held under finance leases of the Group amounted to HK\$36,084,000 (2000: HK\$37,869,000).

At 31 May 2001, investment properties and vessels with respective carrying values of HK\$30,650,000 and HK\$4,040,000 (2000: HK\$41,700,000 and HK\$10,924,000), and bank deposits of HK\$10,610,000 (2000: HK\$30,050,000) were pledged to banks against banking facilities granted to the Group.

## CONCERNING MATTERS NOTED IN THE AUDITORS' REPORT

### Forest Concession Rights

In September 2000, the Group acquired 100% in Finestyle Investment (Suriname) N.V. ("Finestyle Suriname") in Suriname, which holds beneficially the land use right of a forest concession consisting of 8 parcels of land with a combined area of 27,975 hectares located in Brownsweg, Suriname. The concession has been valued professionally at US\$19,507,900 (equivalent to approximately HK\$152.1 million) by a renowned Forestry Valuation Bureau in Suriname based on the present value of net future cash flows from operations.



## CONCERNING MATTERS NOTED IN THE AUDITORS' REPORT *(Con'd)*

### Forest Concession Rights *(Con'd)*

Subsequent to the acquisition of the concession, the Group has established a saw mill in Suriname and commenced marketing activities in PRC according to plan. In view of its growing reliance on timber imports and increasing environmental concerns, the PRC market offers enormous timber trading opportunities. The Group is also exploring opportunities in other markets including Japan, Taiwan, Europe and North America. The management is of the view that in the long term, its forest exploitation and timber trading business will contribute a significant economic value in terms of revenue and profitability.

### Going Concern

Due to the downturn of the construction industry and loss in revenue, the Group has been experiencing a tight cash flow leading to a number of litigations instituted by some of its creditors including financial creditors. Despite the difficulties, the management considers that the liquidity problem is remediable and the Group's cash flow will be improved in the foreseeable future.

The management is confident with the future prospects of the Group. With better and effective financial management and funding strategies, the management is determined to revive the Group's working capital in the reasonably near term. The Group has been negotiating actively with existing financial creditors to extend its credit facilities and re-schedule its financial debts, and is also seeking possible fundings from prospective financiers on appropriate terms. The developments have been positive, and the management is confident that the Group will continue as a going concern and accomplish its goals.

### Recoverability of loan receivable

This is the loan receivable with original principal amount of HK\$72.3 million brought forward from the previous year ended 31 May 2000, which comprises two debts assigned by two of the Group's debtors to a third party (the "Assignee"). The Assignee is a company incorporated in the Republic of Suriname, Latin America, which own Forest Concessions in Suriname. According to the assignments, the Assignee will fully settle the loan through supply of timber over a period of five years and failing that, the Assignee will offer the Group an equivalent amount of land use rights of Forestry Concessions in lieu of cash settlements for the remaining indebtedness in accordance with a letter of comfort issued by the Assignee to the Group. To date, no settlement amounts have been made by the Assignee but the directors expect that the debt will be settled in full especially in view of the letter of comfort. The management has been investigating the possibility of early conversion of the loan into requisite amount of land use rights of Forest Concessions, or alternatively the creation of a secured debenture over the Concession Rights.