

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

For the period from 1st April, 2000 to 31st December, 2000, turnover of the Group amounted to HK\$277,848,000 and the loss for the period was HK\$19,411,000. The loss was mainly attributable to a share of approximately HK\$25,000,000 provision for impairment loss on construction in progress (net of minority interests).

### Industrial Investment

Hangzhou B.P. Chemical Fibre Co., Ltd. ("Hangzhou B.P."), in which the Group holds 55% interests, achieved a turnover of HK\$255,605,000.

The market environment in year 2000 was difficult to Hangzhou B.P.. Of the three major products, only polyester fibre enjoyed satisfactory sales while viscose rayon and nylon fibre suffered from a downturn in turnover. Meanwhile, profit margin was further impaired by rising cost of raw materials.

### Commercial Investment

As at the balance sheet date, the Group held 30% equity interest in Shanghai Hong Qiao Friendship Shopping Center Co., Ltd. ("Shanghai Hong Qiao").

During the period, the domestic retail industry in the PRC was generally affected by deflation, and consequently a decline in turnover. Following the continuing economic development of Shanghai, many shopping arcades next to Shanghai Hong Qiao headquarters have commenced business and created direct competitions to Shanghai Hong Qiao. In view of this, the management of Shanghai Hong Qiao has adopted various measures with reference to the geographical location and commercial environment of Shanghai Hong Qiao such as improving the quality of its sales team, lowering its operating costs and increasing its competitive edge. These measures managed to maintain the sales trends of Shanghai Hong Qiao in previous years. During the year, the total sales income of the Shanghai headquarters and Suzhou branch of Shanghai Hong Qiao amounted to RMB273,200,000. Although the Suzhou branch operates in a difficult situation and still incurs loss, effort is being made to improve its operation as well as the overall economic efficiency of Shanghai Hong Qiao for the coming year by further lowering its operating costs and leasing out vacant areas.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Property Investment

During the period, although the property market in Hong Kong improved slightly, there was fierce competition in office rental market in respect of leasing contracts and contract renewals. As a result, the occupancy rate of Winsome Commercial Building, situated in Yuen Long with a total gross floor area of 42,665 square feet, reduced from 72% at the beginning of the period to 63% at the end of the period. Rental income for the period amounted to HK\$2,870,000, representing an annual yield of approximately 6.7%. The Group will adopt flexible strategies in leasing and marketing so as to maintain existing tenants and to attract new tenants.

## LIQUIDITY AND CAPITAL RESOURCES

As at 31st December, 2000, the Group's total shareholders' funds amounted to HK\$587.9 million, compared to HK\$609.3 million as at 31st March, 2000. The net asset value per share was HK\$0.484 as at 31st December, 2000 (31st March, 2000: HK\$0.502). As at 31st December, 2000, bank borrowings due within one year was HK\$98.1 million and bank borrowings due after one year was HK\$134.5 million, compared to bank borrowings due within one year of HK\$63.4 million and bank borrowings due after one year of HK\$148.8 million as at 31st March, 2000.

As at 31st December, 2000, the Group had working capital of HK\$351.0 million and a cash balance of HK\$387.3 million, compared to working capital of HK\$343.7 million and a cash balance of HK\$370.9 million as at 31st March, 2000.

During the financial period, all available cash was placed as deposits in banks to earn interest before any substantial investments are made, which reflects the prudent financial strategy of the Group. The majority of the liabilities of the Group were bank loans and other loans incurred by a subsidiary in the PRC.

## PLEDGE OF ASSETS

As at 31st December, 2000, the credit facilities granted by banks to certain of the Company's subsidiaries were secured by pledging of assets, including bank deposits of HK\$23,291,000 (31st March, 2000: HK\$15,473,000), the Group's investment properties of HK\$57,000,000 (31st March, 2000: HK\$60,000,000), certain of the Group's land and buildings with an aggregate net book value of HK\$68,395,000 (31st March, 2000: HK\$71,825,000), shares of those subsidiaries holding the secured property interests, and assignment of rental income received and receivable from the secured investment properties.

# MANAGEMENT DISCUSSION AND ANALYSIS

## STAFF

As at 31st December, 2000, the Group employed about 3,800 staff with remuneration for the period amounting to approximately HK\$45 million. The Group provides its staff with various benefits including discretionary bonus, provident fund and medical allowance. Staff training is also provided as and when required.

## PROSPECT

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 costs 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.