

## **MANAGEMENT DISCUSSION AND ANALYSIS**

During the period under review, Hong Kong economy was under a period of recession and the high level of unemployment despite series of interest rate cuts.

### **Business Review**

The Group recorded a turnover of HK\$721,000 for the six months ended September 30, 2001 representing a decrease of 76% from HK\$3,019,000 for the previous corresponding period. The decrease in turnover was mainly due to the net effect of the decrease in the retailing of fashion apparel and the increase in rental income from investment properties and properties held for development. The loss attributable to shareholders for the six months ended September 30, 2001 was HK\$1,069,000 a slight decrease of 1.5% as compared to HK\$1,085,000 in 2000.

The September 11 Terrorist attack and the war against terrorism create uncertainties on the property market, therefore the development of the sites will be deferred.

### **Prospects**

In view of the uncertain economic conditions, the management will continue to follow its prudent management policies and take steps to improve the Group's business and will explore other business opportunities which are in line with the Group's development strategy so as to sustain long term growth.

On July 27, 2001, Heng Fung has agreed to grant to Hai Xia Finance the Option to acquire up to 380,000,000 Shares of the Company, subject to the satisfaction of certain conditions. With the anticipation of the introduction of new investors and continuous support of the ultimate holding company, the management is seeking business opportunities which is mainly focused in the Strait.

### **Liquidity and capital resources**

The Group monitors its liquidity position as part of its ongoing assets and liabilities management. The balance between liquidity and profitability is carefully considered.

During the period under review, Heng Fung has exercised the option to convert 16,000,000 convertible preference shares to 123,076,922 ordinary shares. And through a placing exercise announced and completed in August 2001, the Company placed out 30,000,000 new ordinary shares at HK\$0.60 per share to independent subscriber and raised net proceeds of approximately HK\$17,500,000.

At September 30, 2001, the Group was debt free and had a current ratio of 5.57 (3.31.2001: 0.51). Bank and cash balance amounted to HK\$13,312,000 (3.31.2001: HK\$442,000). The significant improvement in the liquidity was due to the net proceeds received from the placement.

### **Foreign Exchange Exposure**

Substantially all the revenues, expenses, assets and liabilities are denominated in Hong Kong dollars. The Group's cash deposit and bank balances is mainly in either Hong Kong Dollars or United States Dollars. During the same period, the Group neither engaged in any derivative activities nor committed to any financial instruments to hedge its balance sheet exposures.

### **Human resources**

The Group continues to recognize and reward its human resources similar to that disclosed in the Company's 2001 Annual Report.

### **Contingent liabilities**

Certain former staff issued writs against the Company claiming for wrongful dismissal of approximately HK\$1,542,000 plus interest and related costs. The directors are advised by the legal counsel of the Company that it is unlikely that the former staff will succeed in their claims.