

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

During the year under review, the Group recorded a turnover of HK\$4,513,864 (2000: HK\$3,140,361) and a loss attributable to shareholders of HK\$12,882,682 (2000: profit attributable to shareholders of HK\$15,617,054).

LIQUIDITY AND FINANCIAL RESOURCES

Operations of the Group are generally financed through internal cash resources. During the year, the Group generated net cash inflows from operating activities of approximately HK\$33 million. As at 31 December 2001, cash and bank balances of the Group were approximately HK\$56 million. The Group had no borrowings and its operations were financed entirely by shareholders' equity.

CAPITAL STRUCTURE

During the period from 15 June 2001 (date of incorporation) to the date of this annual report, changes in the capital structure of the Company are as follows:

- (a) On the date of incorporation, the authorized share capital of the Company was HK\$100,000 divided into 10,000,000 ordinary shares of HK\$0.01 each, all of which were allotted and issued nil paid on 9 July 2001 and were subsequently credited as fully paid on 12 December 2001.
- (b) On 10 December 2001, the authorized share capital of the Company was increased from HK\$100,000 to HK\$300,000,000 by the creation of a further 29,990,000,000 ordinary shares of HK\$0.01 each, ranking pari passu with the existing share capital of the Company.
- (c) On 12 December 2001, the Company issued an aggregate of 889,900,000 ordinary shares of HK\$0.01 each, credited as fully paid, as consideration for the acquisition of the 889,900,000 shares in the issued share capital of GR Holdings.

REVIEW OF OPERATIONS

1. Shanghai Sine Pharmaceutical Corporation Limited (“Sine Pharmaceutical”)

Sine Pharmaceutical recorded a turnover of RMB288 million in the year 2001, an increase of 4% over last year. During the year, competition in the pharmaceutical market turned intensified owing to the reform in the social medical care system. In response to this, the company took active action on market development and to readjust the product structure with an aim to pursuing a new source of profit growth.

2. Shanghai Evergood Textile Corporation Limited (“Evergood Textile”)

Evergood Textile recorded a turnover of RMB60.92 million. Both export and domestic sales decreased as a result of fierce competition. Despite that it was a very difficult year for the enterprise, Evergood Textile is actively looking for the opportunity in assets restructuring in order to escape from this formidable situation.

MANAGEMENT DISCUSSION AND ANALYSIS

3. Shanghai Tian An Bearing Company Limited (“Tian An Bearing”)

The results for Tian An Bearing grew steadily. It recorded a turnover of RMB100 million, representing an increase of 8% over last year, within which export sales grew by 15.9% and a slight drop in domestic sales. During the year, Tian An Bearing passed the certification of ISO9001 and QS9000 that led to upgrade and renewal of its products. Moreover, on the basis in maintaining the existing markets, the company was also actively developing the European markets and achieved a satisfactory growth trend.

4. Shanghai Yong An Dairy Company Limited (“Yong An Dairy”)

Yong An Dairy recorded a turnover of RMB129 million for the year, representing an increase of 82% over last year. The net profit after taxation was RMB3.24 million, an increase of 90% over the year 2000. This year Yong An Dairy emerged with a rapid growth trend. In addition, the largest dairy group in the PRC, Shanghai Bright Dairy & Food Company Limited, joined the company during the year and brought about a wider market and new business opportunities. At the same time, the management standard of the company has been further improved by implementing an international and advanced Enterprise Resources Planning (ERP) system.

5. Shanghai Foodstuffs Factory Company Limited (“Shanghai Foodstuffs”)

Shanghai Foodstuffs recorded a total turnover of RMB14 million and a loss of RMB0.51 million for the year. Although its product mix is considered to be outdated and competition has become more intensified, the joining of Hwa Lian Group as the major shareholder of our Chinese partner has initiated a new prospect for the enterprise. The factory of Shanghai Foodstuffs will need to be relocated in the year 2002 to make way for the construction of the subway. We hope that such action would turn the company for the better.

6. Dragon Fortune Limited (“Dragon Fortune”)

Fortune Leader Investment Limited, a wholly-owned subsidiary of Dragon Fortune which is a company incorporated in British Virgin Islands, holds 70% interests in Fortune Leader Overseas Chinese (Dai Ya Wan) Investment Company Limited (“FLOCI”) and 80% interests in Fortune Leader Overseas Chinese (Dai Ya Wan) Real Estate Development Company Limited (“FLOCRE”). Both FLOCI and FLOCRE are equity joint venture enterprises formed in the PRC and are principally engaged in the construction, development and operation of the Palm Island Golf Club & Resort (“Palm Island”). Palm Island is located at Huizhou of the PRC and is only 45 minutes driving distance from Hong Kong/Shenzhen border via modern highway. Facilities within the central garden of Palm Island include suites with spa, resort pools, restaurants, library, video room, activity centre, music hall, garden courts, gymnasium and children’s playground. Sport facilities include tennis courts, basketball court, volley ball court, squash court, heated indoor pool, practice greens and golf driving range. The Group believes that Palm Island will provide significant contribution in the near future.

MANAGEMENT DISCUSSION AND ANALYSIS

7. **Widesource (Hong Kong) Limited (“Widesource”)**

Widesource, a company incorporated in Hong Kong, holds 90% interests in Widesource Hot Spring Resort Company Limited (“Widesource Hot Spring”). Widesource Hot Spring is an equity joint venture enterprise formed in Huiyang City of the PRC and is principally engaged in the construction and operation of a leading hot spring resort located at Shatian Town. Shatian Town is located in an area surrounded by eye-catching forests and mountains where it is abundant in pollution-free natural mountain spring resources with an environment of tranquil atmosphere. The Hot Spring Resort is only 15 minutes driving distance from Palm Island and will therefore provide an ideal supplementary activity for its golfers. Tourists from Hong Kong, Shenzhen and Dongguan will also be the main source of customers for the Resort. The Group believes that the resort will become a successful tourist attraction and the project will provide significant returns to the Group.

8. **EVI Education Asia Limited (“EVI”)**

EVI aims to become a provider of internet education, offering Chinese and English language-based pre-school education services targeting kindergartens, teachers, parents and pre-school children. The objective of the EVI group is to establish an education community consisting of kindergartens, teachers, parents and pre-school children through the use of both on-line and off-line services. Children can learn with their parents on EVI’s education platform tailor-made for each kindergarten featuring on-line teaching, learning and education-related management tools together with their off-line services including extracurricular training courses, products promotion, seminars, e-media productions and information technologies related services. The platform is innovative and combines the information technologies, traditional teaching curricular and professional on-line and off-line pre-school education materials. The Group believes that the return on investment on EVI will be significant in the near future.

9. **Happy Online Group Limited (“Happy Online”)**

Happy Online holds 80% of interests in China Express (Holdings) Limited (“China Express”). China Express is an investment company which holds (1) 60% interests in China Ticketing Centre Limited; (2) 30% interests in China Eastern Air Development (HK) Limited and (3) 49% interests in China Northern Air Travel Limited. Business activities of China Ticketing Centre Limited include the provision of air ticketing services between Hong Kong and the PRC as well as domestic flights within the PRC, hotel reservation services both in Hong Kong and the PRC, organization of specific tours to the PRC for business research or cultural exchange activities and being the ticketing agent for the airlines under Civil Aviation Administration of the PRC. China Eastern Air Development (HK) Limited is mainly engaged in air ticketing business and its substantial shareholder is Eastern Air Group Co.. China Northern Air Travel Limited is mainly engaged in travelling business and its substantial shareholder is China Northern Airline. Although the year 2001 was considered to be a tough year for travelling business in general, the Group believes that the return on these investments will improve as a result of the gradual recovery of the global economy.

10. **Victory Faith Investment Limited (“Victory Faith”)**

Victory Faith holds two pieces of agricultural lands in Hong Kong for residential or non-residential development purposes at Lot Nos. 2419 and 2425 in Demarcation District No. 91. Victory Faith will continue to search for the best way in developing the lands. It is expected that it will provide significant investment returns to the Group in the foreseeable future.

MANAGEMENT DISCUSSION AND ANALYSIS

11. Luck Point Investments Limited (“Luck Point”)

Luck Point, a company incorporated in British Virgin Islands, holds 70% interests in Huaiji Luck Mountain Funeral Parlor Limited (“Huaiji Luck Mountain”) which is an equity joint venture enterprise established in Huaiji County, Guangdong Province. The business scope of Huaiji Luck Mountain includes the development, construction, marketing, administration and management of a funeral parlor and its related services. The average population in Huaiji County is approximately 0.9 million and its annual natural death rate is around 0.6%. Moreover, the Chinese Government will expect cremation of human corpse to be reached at 100% which will create certain demand for cremation service. Huaiji Luck Mountain will provide cremation service and other related services to Huaiji County and its nearby areas. The Group believes that Huaiji Luck Mountain will generate considerable return to the Group.