

Management Discussion and Analysis

FINANCIAL REVIEW

The Group recorded a consolidated turnover of approximately HK\$670,000 for the year ended December 31, 2001, which decreased by approximately HK\$106,700,000 as compared with last year. The reduction in turnover was primarily due to the disposal of the apparel retailing business in year 2000 which contributed approximately HK\$105,400,000 to the turnover of the Group last year. The loss attributable to shareholders for the year increased to approximately HK\$141,890,000. Based on the weighted average number of 3,632,336,252 shares in issue during the year, the basic loss per share was reduced to 3.90 cents as compared with 4.07 cents in the previous financial year.

Turnover for the year under review represents the rental income received from its investment properties. The Group recorded a decrease of 66% in its rental income, mainly due to the downturn of the properties market in Hong Kong, and the reduction in the overall properties portfolio of the Group.

The total operating expenses of the Group was also reduced by 77% as a result of the disposal of its retailing business in year 2000. Goodwill arising on acquisition of its investments is amortised over a period of ten years. During the year under review, the Group charged a total of approximately HK\$6,800,000 goodwill amortization expenses to the income statement.

During the year under review, the Group shared approximately HK\$34,400,000 losses from its associated companies, out of which approximately HK\$11,200,000 were the profit from Xinhua Control, which was more than offset by the loss of approximately HK\$24,300,000 from IBR, and approximately HK\$25,100,000 from Egochina.

The Group suffered a revaluation deficit on the investment properties of approximately HK\$6,000,000 at year end. During the year under review, the Group disposed of two properties at a profit of approximately HK\$1,800,000.

At December 31, 2001, the Group provided for the impairment in Mecox Lane amounted to approximately HK\$39,000,000 and in Great Choices amounted to approximately HK\$9,000,000. The Group also provide for the loss incurred on disposal of IBR amounted to approximately HK\$38,700,000. The management believes that these provisions were one-off in nature and non-recurring.

LIQUIDITY AND FINANCIAL RESOURCES/PLEDGE OF ASSETS

As at December 31, 2001, the net working capital of the Group totaled approximately HK\$163,900,000, representing an improvement of over 34% as compared to the previous year.

The Group had approximately HK\$167,000,000 cash on hand at December 31, 2001. Apart from the secured bank loans of HK\$18,000,000 which are pledged against certain investment properties and time deposits of the Group, the Group had only a nominal amount of trade liabilities and commitments. This represented a gearing ratio of 9.8% (2000: 8.4%), which is calculated as the total liabilities to shareholders' equity.

With a strong balance sheet, the financial position of the Group remained healthy during the year under review.

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EMPLOYEES

The Group recognizes the importance of high calibre and competent staff and has a strict recruitment policy and performance appraisal scheme. Remuneration packages are largely in line with industry practices. Bonus and other merit payments are linked to the performance of the Group and of the individuals as incentive to optimize performance. In addition, share options have been granted to certain eligible directors and employees in accordance with the terms of the approved share option scheme adopted by the Group.

The management will strive to improve employer-employee relationship in an effort to enhance efficiency and loyalty.

PROPOSED ACQUISITION AND POTENTIAL CHANGE IN SUBSTANTIAL SHAREHOLDER

On March 8, 2002, the Company entered into a sale and purchase agreement with Sinolink Worldwide Holdings Limited ("Sinolink") to acquire 100% shareholding interest in Sinolink Industrial Limited ("Sinolink Industrial") and its shareholders loan of approximately HK\$137,900,000 at a consideration of HK\$360,400,000. Sinolink Industrial is indirectly interested in 70% of Shenzhen Fuhuade. The completion of the acquisition is conditional upon the shareholders approval in the special general meeting to be held in May 2002.

Concurrent with the proposed acquisition, Silver Grant International Industries Limited, one of the substantial shareholders who is interested in 30.38% of the Company, entered into a sale and purchase agreement to sell most of its interest in the Company to Sinolink. Upon completion of the sale and purchase, Sinolink will become the largest shareholder of the Company. The completion of the sale and purchase is conditional upon the successful completion of the proposed acquisition of Sinolink Industrial by the Group.