

MANAGEMENT DISCUSSION AND ANALYSIS

Overall Performance

The Group's total turnover surged by HK\$18 million to HK\$21 million in 2001 or six times of the turnover in the previous year. The significant revenue increment was partly attributable to the Group's diversification of business into the beauty, fitness and body care related business generating HK\$6 million turnover since acquisition in the fourth quarter of 2001. The Group's existing core business of money lending also reflected a considerable annual growth of loan interest income of 91% while the travel agency attained HK\$9 million turnover operating in full swing in 2001 (2000: HK\$0.3 million) since its commencement of business in December 2000. Despite an encouraging increase in revenues, the Group reported loss attributable to shareholders of HK\$25 million for the year. Taking out the share of loss of associated companies, the Group still incurred a loss of HK\$17 million. The substantial loss was incurred mainly due to: (a) Staff costs and related expenses increased by 100% to HK\$10 million (2000: HK\$5 million). Following the diversification of its business activities, the Group expanded and shifted from a lower cost operational staff mix to a more skilled and business/marketing oriented staff mix. (b) Operating leases of land and buildings and depreciation rose by 400% to HK\$5 million (2000: HK\$1 million) mainly on account of expansion of office space as well as capital expenditures on office modernisation and shop renovation to position the Group for future growth and development in various existing/potential business segments. (c) In line with the Group's adoption of prudent accounting policy, provision of HK\$6 million (2000: HK\$1 million) was made for impairment loss of investment securities. In addition, amortisation of goodwill of HK\$2 million on acquisitions made in the year was written off as an expense in the profit and loss account.

Liquidity and Financial Resources

To strengthen the capital base for developing the Group's business activities, further expansion and to add flexibility to capitalise on opportunities which will arise as the economy recovers, the Group has respectively raised HK\$47.8 million through a rights issue and obtained an interest-free loan of HK\$191 million from the controlling shareholder during the year. As at year end, the Group had repaid \$58 million of the shareholder's loan while holding cash deposit of HK\$142 million (2000: HK\$20 million). Shareholders' funds also increased to HK\$87 million (2000: HK\$57 million). The Group is financially strong with no borrowings from banks, contingent liabilities and charges on assets as at year end and operating and capital expenditures are adequately funded by internally generated capital resources.

The management always takes a conservative approach towards potential risk exposure. As to the possible loss of holding investment securities, the carrying amounts of individual investments are reviewed regularly and any impairment loss is recognised as an expense in the profit and loss account. As the Group's business focus is in Hong Kong, Mainland China and Macau, and the Group's cash deposit and bank balances are mainly in either Hong Kong Dollars or United States Dollars, exchange rate risk exposure is significantly avoided.

Significant Investments Held And Material Acquisitions And Disposals Of Subsidiaries

In September 2001 the Group diluted its shareholding in Integrated Solutions Limited ("ISL"), a manufacturing software applications developer since 1985, from 40% to 32.8% by successfully recruiting FlexSystem Holdings Limited ("Flex") as a strategic partner. Flex, a listed company on the Growth Enterprise market ("GEM") of The Stock Exchange of Hong Kong Limited, is a leading enterprise application software developer based in Greater China with over 10 years experience in the software industry. It is anticipated that such new strategic relationship provides synergy in promoting ISL's products and services offering and broadening the market share of these products in Hong Kong as well as Mainland China.

In October 2001, the Group acquired a majority equity interest in Headquarters Limited ("HQL") and Spa D'or Limited ("SDL"). HQL has been carrying on hair salon business under the well-known brand name of "Headquarters" in Hong Kong for over a decade. It has an established customer base falling in the high-income group with strong interest in personal appearance for instances, artists from the entertainment or fashion business sectors. SDL on the other hand is a newly established beauty salon offering a wide range of health and beauty services and operating at a prime business location in Hong Kong. During the year under review, the beauty salon underwent renovation.

Employees

Following the acquisition of the hair and beauty salon business, the number of employees of the Group, including its subsidiaries but excluding associated companies, rose to approximately 140 at the year end date as compared to 30 in 2000.

The Group has developed its human resources policies and procedures based on performance and merit. The Group ensures that the pay levels of its employee are rewarded on a performance-related basis within the general framework of the Group's salary and bonus system. Share options may be granted to Executive Directors and full-time employees of the Group to subscribe for shares in the Company under the terms and conditions of the Company's share option scheme. There was no option outstanding at any time during the year.

Business Review and Prospects

Looking back at the two years since the current management took over the Group in September 1999, focus of the management has been placed on the following aspects:

1. Recovery of debts – Since the current management took over the Group, about HK\$53 million or 72% of the long outstanding debts standing at HK\$73.4 million when the management changed in 1999 was recovered.
2. Exploring investing opportunities – The management has been constantly exploring and reviewing investment opportunities with good potential. To diversify and strengthen the Group's earning capacity as well as to generate steady income with recurring cash flows, sequential investments were made for information technology business, travel agency and hair and beauty salons.

MANAGEMENT DISCUSSION AND ANALYSIS (cont'd)

3. Enhancing the value of "FORTEI" trademark – A license agreement with an independent third party was entered in January 2001 for the exclusive use but not the ownership of the "FORTEI" trademark by the licensee in Hong Kong, Macau, Taiwan and Mainland China at an aggregate consideration of RMB 24.5 million receivable in 8 years.

Looking ahead of the financial year, the management expects the continuation of a tough operating environment worldwide with continued high unemployment and deflationary pressure in Hong Kong which will undermine consumer confidence and investor sentiments. Despite the adverse economic conditions, the management will strive to improve the performance of the Group and will aggressively examine its long-term strategy and proactively pursue strategic activities to maximise returns to the shareholders.

The Group will continue to be engaged in the money lending business by the provision of commercial and personal loan in Hong Kong. The management in general adopts a fairly conservative view on exposure to credit risk by maintaining a tight control on loan assessments and approvals to uphold a quality loan portfolio while at the same time offers flexibility and efficiency in granting loans in order to remain competitive to banks or other financial institutions.

With China's accession to the World Trade Organization ("WTO") in November 2001, the hosting of the Olympic Game in Beijing in 2008, easing of visa restrictions and simplification of border-crossing procedures for Mainland China residents, the more affluent Chinese economy compared to some years ago and no doubt the opening of Hong Kong Disneyland in future all of which factors will combine to create a positive effect on the tourist industry in Hong Kong, Macau and Mainland China. In addition, Macau tourism and economy is expected to boost in light of the liberalisation of Macau's casino gaming industry in 2002 together with the improvements in Macau's social order since reversion of its sovereignty to Mainland China. Being a tour operator specialising in Hong Kong-Macau ferry route ticketing, hotel reservation and sale of customised holiday fun packages in Hong Kong, Macau and Southern China regions, the Group will double its efforts to explore and capitalise on these opportunities.

With respect to the newly acquired hair and beauty salon business, the management believes that the overall market for prestige beauty, fitness and personal grooming services will continue to grow in the new decade in terms of overall demand, market penetration and diversity of the consumer groups. It is also believed that with increasing stress levels and stronger spending power, demand by today's women, and perhaps to a lesser extent by men, for more ways to beautify, reduce stress, relax and combat skin aging increases. It is with this concept in mind that a ladies only beauty centre is launched in 2002 providing innovative and high quality beauty services to a niche group of customers with relatively high disposable income. Engaging in the service industry upholding "Customer Satisfaction" as our prime objective, the Group cannot emphasis more the importance of professional and adequate training to its staff through demonstration, lectures and sufficient practical experience and training.

As all the Group's material investments only came under control by the current management for a relatively short time, it requires time for the investing businesses to consolidate, grow and mature before reaping a return on investments. Stringent cost control will be maintained over the Group's operating cost with every endeavor made to maximise operating efficiency. The management is confident that being a medium sized operation, it has the flexibility, capacity and determination to succeed in any of the Group's existing business activities and any other business objectives it may pursue in future.