BUSINESS REVIEW

For the year ended 31st December, 2001, the Company and its subsidiaries (collectively the "Group") recorded a turnover of approximately HK$312,340,000 and a loss attributable to shareholders of HK$26,070,000. The loss was mainly attributable to the share by the Group of the loss of a manufacturing subsidiary amounting to approximately HK$28,650,000, representing 55% of the total loss of approximately HK$52,090,000.

Industrial Investment

Hangzhou B.P. Chemical Fibre Co., Ltd. ("Hangzhou B.P."), a company in which the Group holds 55% interests, is located 7 kilometres away from the centre of Hangzhou, and has 2,300 core employees. During the year, Hangzhou B.P. recorded a turnover of approximately RMB302,101,000 and a loss of approximately RMB55,736,000.

The People's Republic of China (the "PRC") market for viscose rayon, a major product of Hangzhou B.P., had a difficult year in 2001 and market price of viscose rayon have been on the decline. The gross profit margin on viscose rayon of Hangzhou B.P. decreased significantly during the year, resulting in a substantial loss incurred by Hangzhou B.P. in 2001. With the strict implementation of production cost control measures and the efforts of Hangzhou B.P. in improving communication with other manufacturers across the PRC, it appears that prices on viscose rayon in the PRC have already bottomed out. The management is confident that Hangzhou B.P. will be able to reduce its loss and strive for profitability in 2002.

Commercial Investment

The Group is currently holding 30% equity interests in Shanghai Hong Qiao Friendship Shopping Center Co., Ltd. ("Shanghai Hong Qiao").

Commercial retailing is a vehemently competitive industry in the PRC, and its profit margin is diminishing. However, due to its prime location, highly focused market positioning and quality management, Shanghai Hong Qiao still enjoys comparatively high yield.

In 2001, the total sales turnover of the Shanghai headquarters and the Suzhou Branch of Shanghai Hong Qiao amounted to approximately RMB272,823,000.

Commercial Investment *(Continued)*

From the fourth year of its joining the World Trade Organization, the PRC will begin easing restrictions on foreign retailing enterprises, in areas such as geographic presence, shareholding percentage, investment amount and mode operation of Currently, the aggregate sales of sino-foreign joint venture retailing enterprises account for around 10% of the total sales of commercial items in the PRC. As the PRC market shows great development potential for foreign retailers, it is expected that an increasingly number of large-scale foreign retailing enterprises which have stronger competitive strength in management experience and financing capabilities will further dominate the PRC retail market. This will exert great pressure on the operation of domestic retailing enterprises in the PRC.

Shanghai Hong Qiao is striving to further reduce the operating costs and improve operation performance of its Suzhou branch with a view to further enhancing its overall performance in 2002.

Property Investment

During the year under review, the property market in Hong Kong continued to be sluggish. As a result of the fierce competition in the Hong Kong office rental market in areas of new leases and contract renewals, the occupancy rate of Winsome Commercial Building, which is situated in Yuen Long and has a total gross floor area of 42,665 square feet, dropped from 63% at the beginning of the year to 55% at the end of the year. Rental income derived from Winsome Commercial Building for the financial year under review amounted to approximately HK$3,022,000, providing an annual yield of 5.6%. The Group will adopt flexible leasing and marketing strategies so as to retain existing tenants and attract new tenants.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31st December, 2001, shareholders' funds of the Group totaled HK$561,866,000 (31st December, 2000: HK$587,936,000), while the net asset value per share was HK$0.463 (31st December, 2000: HK$0.484). As at 31st December, 2001, the Group had an excess of bank balances over total bank loans by HK$211,945,000 (31st December, 2000: HK$154,719,000). As at 31st December, 2001, the Group had outstanding bank loans of HK$194,769,000. In terms of maturity, the outstanding bank loans can be divided into HK$183,630,000 (94%) to be repaid within one year and HK$11,139,000 (6%) to be repaid after one year but within two years. No outstanding bank loan to be repaid after two years but within five years. In terms of currency denomination, the outstanding bank loans can be divided into HK$172,414,000 (89%) in Renminbi and HK$22,355,000 (11%) in US dollars.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE *(Continued)*

The monetary assets and liabilities and business transactions of the Group are mainly carried and conducted in Hong Kong dollars, Renminbi and US dollars. Besides, the Group maintains a prudent strategy in its foreign exchange risk management, where foreign exchange risks are minimized via balancing the monetary assets versus monetary liabilities, and foreign exchange revenue versus foreign exchange expenditures. As the Hong Kong dollar is linked to the US dollar, and the exchange rate between Hong Kong dollar and Renminbi slightly fluctuates, the Group believes that its exposure to foreign exchange risks is not material.

A majority of the Group's bank borrowings are subject to fixed interest rates.

As at 31st December, 2001, the Group had working capital of approximately HK$192,879,000 and bank balances of approximately HK$406,714,000 (31st December, 2000: HK$350,969,000 and HK$387,299,000 respectively). In view of the Group's current cash balances, available banking facilities and cash revenue from business operations, it is believed that the Group has sufficient resources to meet the foreseeable working capital demands and capital expenditure.

During the year, any cash available is placed in banks as interest-earning deposits before committed to any substantial investment. Liabilities of the Group mainly comprise the bank loans and other borrowings by a subsidiary in the PRC.

PLEDGE OF ASSETS

As at 31st December, 2001, certain assets of the Group have been pledged as guarantee for the banking facilities granted to some of its subsidiaries. Such assets include bank deposits amounting to approximately HK$11,700,000 (31st December, 2000: HK$23,291,000), certain land and buildings with net book value amounting to approximately HK$67,455,000 (31st December, 2000:HK$68,395,000). As at 31st December, 2000, there were investment properties amounting to HK$57,000,000 which included shares in such subsidiaries which held the above property interests, the rental received and receivables on the above investment properties (nil as at 31st December, 2001.)

CONTINGENT LIABILITIES

As at 31st December, 2001 and 31st December, 2000, there were no material contingent liability to the Group.

STAFF

As at 31st December, 2001, the Group had about 2,800 employees. A total remuneration of approximately HK$43,830,000 was paid for the year. Benefits offered by the Group to its employees included, among others, discretionary bonus, mandatory provident fund and medical insurance. Training will also be provided as appropriate.

PROSPECTS

In the face of the changing economy, the Group will continue to pursue prudent and robust operation strategies. As far as the existing operations are concerned, the Group will further step up its efforts in operation management, improve its management quality, strengthen its risk management and reduce the operating costs, with a view to optimizing the corporate governance of the Group. In respect of new investments, the Group will continue to take a prudent approach in identifying projects with attractive returns, stable income and minimum risks.