

MANAGEMENT DISCUSSION AND ANALYSIS

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

BUSINESS REVIEW

The Group recorded a turnover of HK\$4,827,000 for the year ended March 31, 2002 representing an increase of 15.8% from HK\$4,169,000 for the previous year. The increase in turnover was mainly due to an increase in financial and securities investments and an increase in rental income from investment properties and properties held for development despite a decrease in the retailing of fashion apparel. The loss attributable to shareholders for the year ended March 31, 2002 was HK\$7,294,000 as compared with HK\$5,172,000 in 2001.

The terrorist attack on September 11, 2001 and its subsequent fallout have created uncertainties in the property market. Excluding the net loss of HK\$7,930,000 from the revaluation and impairment loss recognised on the Group's portfolio of properties, the profit attributable to shareholders for 2002 was HK\$636,000 as compared to a loss of HK\$5,172,000 in 2001. Gross rental income from investment properties and properties held for development for the year amounted to HK\$1,266,000 which represented an increase of about 255% when compared with last year's income of HK\$357,000. This increase is mainly due to the acquisition of three wholly-owned property investment subsidiaries in November 2000. Because the economic environment continues to cause weakness in our local property market, development of the Group's sites will be deferred.

The turnover of the financial and securities investment division of the Group for the year ended March 31, 2002 amounted to HK\$3,485,000, representing an increase of 1,442% as compared to HK\$226,000 in 2001. Although the securities market conditions were volatile during the period, the financial and securities investment division recorded an operating profit of HK\$7,097,000 as compared to loss of HK\$659,000 in 2001.

During the year, the Group has reduced exposure to the non-profitable operations in the retailing of fashion apparel and accessories due to the economy downturn and redeploy resources to high-yield sectors. As a result, the Group's retailing of fashion apparel and accessories reported an operating loss of HK\$963,000, while sales dropped by approximately 98% to HK\$76,000.

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 Holdings Limited exercised the option to convert 18,000,000 convertible preference shares into 138,461,537 ordinary shares. Additionally, 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 an independent subscriber raising net proceeds of approximately HK\$17,500,000.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND CAPITAL RESOURCES – *continued*

On January 22, 2002, the Company subscribed for 600,000,000 ordinary shares of Greater China Holdings Limited (“Greater China”) in consideration of issuing 100,000,000 ordinary shares of the Company.

At March 31, 2002, the Group was debt free and had a current ratio of 9.63 (3.31.2001: 0.51). Bank and cash balance amounted to HK\$14,664,000 (3.31.2001: HK\$442,000). Total shareholders’ fund of the Group as at March 31, 2002 increased by 51.2% to HK\$106,451,000 (3.31.2001: HK\$70,420,000). The significant improvement in the liquidity and asset base was due to the net proceeds received from the placement and share exchange with Greater China.

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 are 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

Remuneration packages are generally structured by reference to market terms and individual qualifications. Salaries and wages are normally reviewed on an annual basis based on performance appraisals and other relevant factors.

PLEDGE OF ASSETS

At March 31, 2001, the Group pledged bank balances of HK\$1,051,000 as a security for banking facilities granted to the Group. The Group did not have any banking facilities at March 31, 2002.

CONTINGENT LIABILITIES

Two former staff issued writs against the Company claiming, for wrongful dismissal of approximately HK\$1,862,000. The directors are advised by the legal counsel of the Company that it is unlikely that the former staff will succeed in their claims.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

In view of the uncertain economic conditions, the management will continue its prudent management policy 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 Holdings Limited agreed to grant to Hai Xia Finance Holdings Limited ("Hai Xia Finance") the Option to acquire up to 380,000,000 Shares of the Company, subject to the satisfaction of certain conditions (amended on April 6, 2002 by a supplemental agreement).

On April 29, 2002, the Company entered into a co-operative agreement with Hai Xia Finance pursuant to which Hai Xia Finance will exclusively procure to the Company investment rights in projects in the area of natural gas pipelines installation and supply of natural gas in selected cities of the PRC. As a result, the Group has recently diversified into the energy sector in the PRC by entering into agreements to invest in natural gas projects in the outer Beijing area, and in the Hunan and Hubei Provinces in the PRC. The investments will enable the Group to take advantage of opportunities in the PRC energy sector, in particular, the natural gas industry.

With the anticipation of the accelerated urbanisation of small and medium sized cities and the government's encouragement of using environmentally friendly energy - natural gas, together with the West to East Pipeline project to be launched in the future, we will take advantage of new opportunities that will arise by leveraging on the close relationships with our partners in the PRC and expect a bright business future in the coming years.