

Management Discussion and Analysis

Business Review

The Group's turnover for the Year decreased by HK\$24 million, or 15% to HK\$134 million. The loss attributable to shareholders of the Company for the Year decreased by HK\$230 million, or 83% to HK\$48 million. The Board does not recommend the payment of any final dividend in respect of the Year (2001: Nil).

The Group's overall performance for the Year was adversely affected by the diminution in the value of technology related investments. The decrease in turnover reflected the deteriorating garment, shoes and leather goods businesses, coupled with the sudden drop-off in the demand for the car audio products in the aftermath of tragic event of September 11 in the United States.

Garment, Shoes and Leather Goods Business

During the Year, the Group's garment, shoes and leather goods businesses were struggling amid the keen market competition and the downward price spiral. The sale of garment, shoes and leather goods for the Year decreased by 12% to HK\$105 million. To react to these declining businesses in terms of the disappointing sales and diminishing margin, the Group has strictly implemented and monitored the remedial action plan by taking a serious retrenchment in working capital investment and a tight control over the operational costs. Through the tight credit and inventory control, the incidence of doubtful debts and stock obsolescence was minimized. The remedial action has substantially cushioned the adverse financial impact of possible bad debts and stock obsolescence from further weighing on the gross profit for the Year. The positive segment results for the Year has illustrated our progress and a great deal of efforts placing in implementing the remedial action plan.

Car Audio Business

The sales of car audio products for the Year has dropped by 36% to HK\$25 million in the aftermath of tragic event of September 11 in the United States. This tragic event has severely affected the business attitude and market confidence, particularly in that of the United States market. In fear of a further downshift in the economy, distributors and importers in the United States shortened their orders placing cycle and reduced their inventory-holdings in the second half of the Year. In this increasingly difficult market situation, the Group's car audio business has recorded an operating loss of approximately HK\$6 million during the Year. In response to this adversity, the Group has endeavored to maintain the existing sales volume, strengthen its relationship with the existing customers and to continue to take a prudent attitude in achieving the new risky orders.

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Internet and Internet Related Business

A confluence of unfavorable external factors encompassing the meltdown of high-tech bubble, tragic event of September 11 in the United States and adverse changes in related regulations shaped the performance and development of the Group's internet and internet related business for the Year. These unfavorable external factors inflicted a great deal of pain on the high-tech and internet businesses and inhibited the Group's initiative for diversification into the high technology based business. As a result, the Group has to slow down the pace of its development and further write down the value of the existing invested projects. In view of the severe shakeout that hit the high-tech sectors, the Group became very cautious and stringent in appraising the suitability and viability of the potential projects, especially for the high-tech business.

Prospect

Given an increasingly difficult market situation, it is less likely that the business segment of garment, shoes and leather goods will be able to be the key operating vehicle of the Group and revert to profitability in the long term. In order to better utilize the resources allocated in this long loss-making business, the Board has actively been considering the restructuring of this business segment.

The continued weakness in the US economy makes the outlook for the car audio business uncertain in the coming year. To react to this, the Group will make effort to maintain and reinforce its existing position by enhancing the research and development capability, exploring European markets, broadening the existing product ranges and keeping tight control over operational costs.

Going forward, the Group will continue its diversification strategy to look for potential acquisitions that complement with our existing business and opportunities to create synergies. With signs of gradual recovery in the economy and market sentiment, the Board is optimistic that the Group will cope with the challenges and is well placed to nurture and develop new business in the future.