MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONS REVIEW

For the year ended 31st December, 2002, the Group recorded a turnover of HK$357,123,000 (2001: HK$312,340,000) and a loss from operations of HK$43,845,000 (2001: HK$37,276,000), share of profit of a jointly controlled entity amounted to HK$2,464,000 (2001: HK$2,369,000) whereas share of loss of an associate was HK$291,000 (2001: nil). During the year, the Group continued to be principally engaged in the manufacturing and trading of chemical fibres, property investment, securities investment and financial services. The Group also owned a 30% equity interest in a company which operates shopping centers in Shanghai and Suzhou, the People's Republic of China (the "PRC") and an effective 37% equity interest in a company which operates a hospital in Xian, the PRC. The Group's loss was mainly attributable to the loss of its chemical fibre business.

Manufacturing and Trading of Chemical Fibres

Hangzhou B.P. Chemical Fibre Co., Ltd. ("Hangzhou B.P."), a company principally engaged in the manufacture and trading of chemical fibre and 55% owned by the Group, reported a loss which accounted for a large part of the Group's loss for the year. Loss incurred by Hangzhou B.P. was primarily a result of low profit margin earned by its major product viscose rayon and impairment losses of HK$25,042,000 recognised for certain of its manufacturing facilities. As stated in the Company's announcement dated 15th January, 2003, the fact that Hangzhou B.P. continued to incur losses in past years had led to the Group's decision to dispose of its entire interests in Hangzhou B.P. for a cash consideration of HK$50,000,000. The consideration is payable by installments and the transaction is expected to be completed in January 2004, or if the purchaser exercises its option, in July 2003. The Directors considered that the disposal is in the best interest of the Company and its shareholders taken as a whole, as it will enable the Group to re-deploy resources to other profitable business opportunities, and following completion of the transaction, relieve the Group from the adverse financial impact of Hangzhou B.P..

Property Investment

The Group's investment property – Winsome Commercial Building is situated in the business district of Yuen Long and has a gross floor area of approximately 42,665 sq.ft.. Keen competition for new leasing and contract renewals resulted in a decrease of annual rental generated by this property by 5% to HK$2,866,000 (2001:HK$3,023,000) whereas weak market sentiment also reflected in a fall of the property value and a valuation deficit of HK$4,000,000 was recognised. As commercial property market in Hong Kong is expected to remain slow in the near term, the Group will continue to adopt flexible leasing and marketing strategies to retain existing tenants and attract new tenants.

Other Activities

Owing to uncertainties clouding the Hong Kong economy and investment market, the Group had not been active in its business of securities investment and financial services during the year. Interest income from loan financing activities decreased to HK$939,000 from HK$2,137,000 in the previous year and an allowance of HK$5,000,000 was made against a doubtful loan.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Jointly Controlled Entity

Shanghai Hong Qiao Friendship Shopping Center Co., Ltd. ("Shanghai Hong Qiao") is 30% owned by the Group and is principally engaged in the retail sales of high end consumer goods. It operates two shopping centers in Shanghai and Suzhou, the PRC with a total gross floor area of approximately 290,000 sq.ft. and employs about 500 staff. For the year under review, Shanghai Hong Qiao successfully managed to increase its sales revenue by an impressive double digit despite heightened competition from other retailers. Nevertheless, keen competition particularly in the Shanghai market has driven down its profit margin and share of profit by the Group was only slightly increased by 4% to HK$2,464,000 (2001: HK$2,369,000). In order to improve the market competitiveness and profitability of Shanghai Hong Qiao, operations plans aiming to enrich and diversify its product mix, strengthen its image as a renowned retailer as well as improve its operating efficiency will be implemented in 2003.

Associate

As stated in the Company's announcement dated 1st November, 2002, the Group had entered into an agreement for the acquisition of an effective 37% equity interest in Xi'an Gaoxin Hospital Co., Ltd. ("Gaoxin Hospital"), a company principally engaged in the provision of hospital services including medical consultation, health care and related consultation services. The general hospital owned by the company is operating in Xian, the PRC and is equipped with medical facilities of advanced technology. It has a gross floor area of approximately 540,000 sq.ft., that can accommodate about 760 beds and employs about 900 medical and health care practitioners. Gaoxin Hospital has shown a very encouraging results since commencement of its full-scale operation in July 2002. According to its management accounts, Gaoxin Hospital recorded an overall profit for the financial period ended 31st December, 2002, albeit a small loss in the month of December. As people's living standard in the PRC continues to rise which will inevitably lead to strong demand for quality medical and health care services, the Directors are optimistic as to the future prospects of medical and health care business in the PRC in general as well as to the future business results of Gaoxin Hospital. The investment in Gaoxin Hospital represents a further step taken by the Group to build a solid core business portfolio and broaden its earnings base.

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

As at 31st December, 2002, the total of bank balances, deposits and cash decreased from HK$406,714,000 in the previous year to HK$155,246,000 (excluding pledged bank deposits) as investment in Gaoxin Hospital was wholly financed by internal resources of the Group. Bank borrowings due within one year amounted to HK$187,495,000 (2001: HK$183,630,000), which represented bank loans wholly raised by Hangzhou B.P. to finance its operations. Most of these bank loans carry fixed interest rates and are intended to be roll-over on a yearly basis. In terms of currency denomination, 94% of the outstanding bank loans were denominated in Renminbi with the balance of 6% in US dollars.

As at 31st December, 2002, shareholders' funds of the Group amounted to HK$525,486,000 (2001: HK$561,866,000) and was equivalent to a consolidated net asset value of HK$0.43 (2001: HK$0.46) per share of the Company. Gearing ratio as of the year end date calculated on the basis of the Group's net borrowings (after deducting available bank balances, deposits and cash of HK$155,246,000) over shareholders' funds, was at a low level of 6%.

The Group had no material capital commitment at the balance sheet date. Given the cash resources on hand, credit facilities available and cash generated from operations, the Directors are of the view that the Group has sufficient financial resources to satisfy its ongoing operational requirements.

Foreign Currency Management

The monetary assets and liabilities and business transactions of the Group are mainly carried and conducted in Hong Kong dollars, Renminbi and US dollars. The Group maintains a prudent strategy in its foreign currency 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 exchange rate of Hong Kong dollar is linked to the US dollar, and the exchange rate between Hong Kong dollar and Renminbi was relatively stable in past years, the Directors are of the view that the Group's exposure to foreign exchange risks is not material. Appropriate measures will be taken by the Group when there are changes in circumstances.

Pledge of Assets

As at 31st December, 2002, certain assets of a non-wholly owned subsidiary were pledged to secure its banking facilities. Such assets included bank deposits amounted to HK$21,048,000 (2001: HK$11,700,000), and certain land and buildings with an aggregate net book value of approximately HK$91,271,000 (2001: HK$67,455,000).

EMPLOYEES AND REMUNERATION POLICY

As at 31st December, 2002, the Group, including subsidiaries but excluding associate and jointly controlled entity, had a workforce of about 2,700 in the PRC and 15 staff based in Hong Kong including directors of the Company. Total emoluments paid during the year, including directors' emoluments, amounted to HK$39,025,000 (2001: HK$43,830,000). The Group generally remunerates its employees based on their merits, performance and prevailing market conditions. Benefits offered by the Group to its employees included discretionary bonus, provident fund scheme and medical insurance.