

Management Discussion and Analysis

REVIEW OF ACTIVITIES

The year in review represents a new era for the Company. The Company began the fiscal year with strong momentum by raising HK\$1,373 million from its strategic shareholders Investor AB, Ericsson and Hutchison Whampoa and an additional HK\$156 million from a public placement. With a solid capital base, experienced management team and access to one of the most extensive networks throughout the world, the Company adopted a new strategy and successfully transitioned to focus on investment opportunities in the region's emerging wireless communications area. The Company now targets high growth opportunities within the wireless value chain such as hardware and software enabling technologies, middleware, personal network technologies, and applications layer technologies.

New Management

The key appointments of Mr. Michael David Ricks and Mr. William Ping Tai to, respectively, the management team and the Board this year have augmented the investment and industry expertise of the Company's Board of Directors and reflected the Company's commitment to its new strategic focus. Mr. Michael David Ricks, previously the CEO and President of Ericsson (China) Company Ltd., was appointed Chief Executive Officer of the Company in December 2000. With close to twenty years experience in the telecommunications industry, Mr. Ricks has spent most of his career in Asia working at a leadership level for multinational companies and brings with him a wealth of experience to both lead and complement the management team. To further enhance the technology and investment expertise of the Company, Mr. William Ping Tai joined the Board of Directors in November 2000. Mr. Tai is a well-known venture capitalist from Silicon Valley and accomplished board member of many leading companies including Transmeta, iAsiaworks, Netergy Networks, Ensemble Communications, GWCom, Chemconnect and Microtune. He is currently a General Partner of IVP, a leading venture capital firm in Silicon Valley, focusing on investments in broadband communications including Internet infrastructure, communications equipment and wireless technologies.

With new leadership and a new direction, the Company's management now comprises a strong team of dynamic professionals with the necessary expertise and experience, both in investment and the wireless sector, to actively pursue the Company's strategy going forward.

Investments in Wireless Sector

During the year in review, the Company completed its first two investments in the wireless communications area, closely followed by a new investment subsequent to the financial year end.

REVIEW OF ACTIVITIES (CON'T)

iSilk

In January 2001, the Company made its first investment in **iSilk**, the visionary developer of Natural Language Processing (NLP) and Artificial Intelligence software applications for wireless and other Internet platforms. According to the terms of the deal, the Company has rights to invest up to US\$7.3 million for a significant minority stake in **iSilk**. The funding will go toward ramping up marketing efforts in the U.S. and Asia for **iSilk's** existing products as well as ongoing work in developing innovative technologies to solve real-world business problems in wireless and other promising areas of the internet and information technology. **iSilk** is leading the development of innovative commercial applications that use NLP technology to power revenue-generating software solutions for wireless data service providers, online merchants, destination sites and many others. Launched in August 1999, the company has over 160 partners including Fox News, Fox Sports, CNET, ZDNet, Hongkong.com and iSyndicate. The company maintains offices in San Francisco, Hong Kong and Shenzhen (China).

InfoTalk

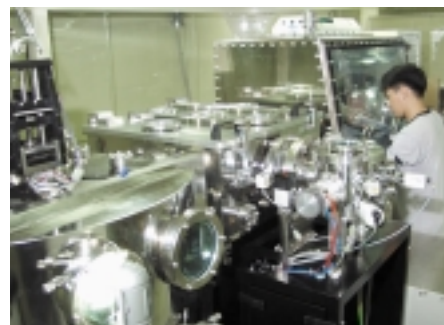
In May 2001, the Company made its second investment as it led a group of leading technology providers and global financial institutions in a US\$12 million round of funding for **InfoTalk** Corporation which specializes in developing multilingual conversational speech recognition technology and natural language technology. The Company contributed US\$4 million in the funding round which will support **InfoTalk's** rapid expansion plans and business development. Headquartered in Hong Kong, **InfoTalk** has demonstrated that it is the early Asian leader in speech recognition and understanding, a key element in simplifying the user interface between people and technology, and is expected to continue to expand its dominant market position. The company's flagship product, e-t@lk, is an award-winning conversational speech understanding engine which can flexibly manage large vocabularies in English and Asian languages and dialects. The majority of the voice portal market in Greater China is powered by e-t@lk and it is speech-enabling some of the largest corporations in the Asia-Pacific, including Bank of East Asia, China Telecom, Hong Kong Jockey Club, Hong Kong and China Gas Company, Pacific Century Cyberworks HKT and Taiwan Paging Networks. In July 2000, **InfoTalk** successfully launched the world's first Chinese voice portal in Hong Kong.

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REVIEW OF ACTIVITIES (CONT)

NESS Display

Subsequent to year end, the Company teamed up with other leading investment firms in July for the US\$15 million round financing for **NESS Display** Corporation Limited, a high-tech R&D organization in Korea specializing in the development of Organic Light-Emitting Diode Displays (OLED) technologies. The Company contributed US\$5.25 million to the funding round which will be used to support **NESS Display's** rapid expansion, to pursue research, development and marketing opportunities in OLED technologies and to further support future high-tech R&D efforts. **NESS Display** is widely regarded as an early Asian leader in the development of OLED technology.



Real Estate Investments

As a part of its evolution, the Company completed the disposal of its two joint venture real estate investments during the financial year. The Company sold its 50% stake in a property development project located in Tsim Sha Tsui to Guoco Group Limited ("Guoco") in September 2000 and its 25% stake in a residential project on Tai Hang Road to Guoco in January 2001. The total consideration received from these sales was in the sum of HK\$112.5 million.

The following investment properties, which generate recurring rental income for the Company, are held free and clear of debt by wholly-owned subsidiaries of the Company. The Company has the option to transfer these three properties to Guoco ("the Put Option") anytime within a six-month period beginning twelve months from May 29, 2000. The Put Option offers the Company downside protection from changes in the property market and the flexibility to dispose of the remaining real estate properties if appropriate:

- (a) **The Center** – The Group owns the 12th and 15th floors of The Center, a prestigious "grade A" office development situated at 99 Queen's Road Central, Hong Kong. All of the floors are fully leased to third parties and to subsidiaries of Guoco, which comprises over half the floor area.
- (b) **Wu Chung House** – The Group owns the 33rd to 35th floors of Wu Chung House, an office tower situated in Wanchai, Hong Kong. All of the floors are currently fully leased to Dao Heng Bank Limited, an indirectly owned subsidiary of Guoco.

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- (c) **Overseas Trust Bank Building** – The Group owns the 17th to 19th, 22nd, 24th to 27th floors, penthouse and 6 car parking spaces on the 2nd floor of Overseas Trust Bank Building, an office building situated in Wanchai, Hong Kong. All the floors and car parking spaces are currently leased to third parties and subsidiaries of Guoco.

Financial Position

With steady rental contribution from the three fully leased investment properties and substantial increase in interest income generated from the proceeds of share subscription by Investor AB, Ericsson and Hutchison Whampoa and by the public placement, the Company's profit from operations for the year ended June 30, 2001 increased substantially by HK\$64 million to approximately HK\$107 million as compared with last year. The increase in interest income was more than enough to cover the increase in administrative expenses during the year.

The HK\$112.5 million proceeds received from disposal of the Company's two joint venture real estate investments during the year significantly increased the Company's cash holdings in bank deposits and investment grade commercial paper to over HK\$1,600 million as at the year end. Together with a debt-free capital structure, the Company is in excellent financial position to capture potential investment opportunities.

OUTLOOK

During the year in review, the Company has developed a professional and dynamic management team, devised a tightly focused investment strategy for the wireless communications area and created the comprehensive processes necessary to support this strategy. Going forward, the management and the Board of the Company are confident that they are in a prime position to seize opportunities in Asia and develop a targeted portfolio of successful companies active in the wireless communications market.

The strategic shareholders of the Company, representing a rare combination of strengths essential to understanding and investing in the wireless sector, will continue to play an important role in the new strategy. Their extensive expertise and global network will be drawn upon regularly to support the business aspirations of portfolio companies. The management of the Company, a unique group of professionals with substantial experience in the markets and technologies the Company is pursuing, will continue to be actively involved in sourcing and analyzing potential investments, as well as supporting existing portfolio companies. A rigorous and well-defined process for evaluating and approving potential investments has also been created, including the establishment of an Investment Committee in the Board of Directors. As the majority of senior management has already been recruited, operating expenses due to organic expansion are expected to rise more slowly in the upcoming financial year than they have in the year under review.

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During the year in review, the Company's investment portfolio of real estate property has been revalued to a current realizable value, based upon independent professional appraisals. The real property holdings of the Company are now substantially similar to the values of the Put Options held by the Company. In the judgment of the Directors, there has been no change in the fair value of any of the investments made in the wireless communications area during the financial year.

Over the upcoming financial year, the Company plans to actively continue analyzing, making and managing investments in both early and late stage wireless communications and wireless internet companies throughout the region. Opportunities in innovative technologies and business designs will continue to be sought in the Asian markets with the most compelling mobile internet developments, particularly in Greater China, Japan and South Korea. The Company is also actively seeking investment opportunities in companies based on the North American West Coast, but with business plans and technology that are applicable either in Asia or globally. The majority of the opportunities the Company is sourcing are early stage companies, but profitable late stage opportunities with potential in the wireless sector are also being sought.

EMPLOYEE AND REMUNERATION POLICIES

As at year end, the Group employed fifteen staff. Eight of the staff are investment professionals, where the senior professionals bring with them substantial experience in investing in and managing companies in the technology and wireless communications sector. We believe that the management team is critical to the success of the investment program that the Group has chosen. The Group remunerates its employees based on their performance and experience in the context of prevailing industry practice. Subject to the shareholders' approval at the forthcoming annual general meeting, the Group would adopt a share option scheme to enable it to attract and retain valued professional employees.