

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF ACTIVITIES

The major venture capital markets around the world experienced sharp downturns during 2001 and the outlook for 2002 remains uncertain. As a result, the Company has been conservative in valuing its current portfolio. Portfolio companies have been written down if their progress is not in line with earlier projections or if their future performance is difficult to predict. The Company management has focused activities relating to existing investments on supporting and positioning relevant companies in this difficult market. New investment activity is continuing with a robust flow of opportunities and attention being paid to risks inherent in uncertain markets. The Company continues to mainly source investment opportunities in China, Japan, South Korea and the US West Coast.

The Company believes that the pricing of investments in the wireless communications sector continues to be favorable and that innovation in this sector brings with it a number of high quality investment opportunities. The Company is being conservative, selecting opportunities that it believes represent substantial value growth potential and on terms that are in accordance with the current business environment.

Wireless Technology Investments

InfoTalk continues to consolidate its position as the leading supplier of speech recognition technology in Asia, with new product releases and substantial revenue growth. Its newly-launched voice authentication software is used to verify information or to identify callers by banks and telecommunications firms that need a high level of access security. With the advent of InfoTalk-Recognizer 8.0, the new version of the company's award-winning speech recognition software, the recognition accuracy for calls from wireless and noisy environment is greatly enhanced. The company's recent developments range from a virtual receptionist system for Taiwan's Sunny Bank to speech activated inquiry systems for Mainland China, including a public inquiry service for utility charges in Guangzhou in Putonghua, Cantonese and local dialects.

iSilk, the Asian innovator in natural language processing and knowledge management, has launched its enterprise-focused knowledge management products. iSilk has recently launched a multi-lingual search engine known as PolySeek which, with its advanced cross-lingual capabilities, will be of particular benefit to multilingual organizations operating in the Greater China region. It facilitates cost effective and efficient information searches.

New Investments

In July 2001, the Company contributed US\$5.25 million of a joint US\$15 million financing round for **NESS Display** Corporation Limited. This high-tech R&D organization in Korea specializes in the development of Organic Light-Emitting Diode Displays (OLED) technologies. The funding will support research, development and marketing opportunities in OLED technologies. NESS Display is widely regarded as an early Asian leader in the development of OLED technology.

The Company co-led a US\$14.65 million financing round in September 2001 for **IP Infusion**, a leading provider of advanced network software for the support of Internet core, edge, and access equipment. Its Zebos Advanced Routing System is regarded as one of the most advanced networking solutions available. With the proliferation of networking technology and Internet standards, IP Infusion's solutions make it easier for equipment vendors to deliver solutions to the market. Equipment vendors can quickly integrate leading edge Internet protocols into their products without the software development expenses normally associated with complex product development. The Company contributed US\$3 million in the round.

Real Estate Investments

To focus on its investments in the wireless communications sector, the Company successfully exited the real estate sector in Hong Kong during the report period. It achieved this by exercising the put options that require its former parent, Guoco, to purchase all of the Company's interest in the three properties-owning subsidiaries — Supreme Goal Investments Limited, W.C.H. Limited and Wanchai Property Investment Limited. These companies respectively owned the following properties:

- (a) **The Center** — 12th and 15th floors of The Center, a prestigious “grade A” office development situated at 99 Queen's Road Central, Hong Kong.
- (b) **Wu Chung House** — 33rd to 35th floors of Wu Chung House, an office tower situated at 213 Queen's Road East, Wanchai, Hong Kong.
- (c) **Overseas Trust Bank Building** — 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 at 160 Gloucester Road, Wanchai, Hong Kong.

The transfer of interests was completed on November 21, 2001 and a total sum of HK\$606,745,000 was received from the transaction.

FINANCIAL POSITION

The Group's cash holdings increased further to HK\$2,231 million at the end of December 2001 after HK\$606.7 million proceeds was received from exercise of the put options to dispose of the three investment properties to Guoco in November 2001.

OUTLOOK

The Company expects that 2002 will provide numerous opportunities to further develop a strong portfolio of investments in privately held growth companies addressing the wireless communications market. However, the economic outlook for 2002 remains uncertain, as do the markets that play a large role in the realization of value growth for venture capital opportunities. The Company has responded to the market risks by utilizing conservative funding strategies and increasing its liquidity.

Innovation in the wireless communications sector continues in all major markets in which the Company sources its investment opportunities. The first major third generation (3G) wireless network has now been launched in Japan and similar launches are planned in other major markets during 2002. These networks and the services that they enable are expected to provide greater business opportunities for the Company's invested companies. The Company is focusing on investing in companies that will benefit in the near and medium term from these positive trends in the wireless industry.

EMPLOYEE AND REMUNERATION POLICY

As at December 31, 2001, the Group employed sixteen staff, eight of whom 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. The Company has adopted a Share Option Scheme.