

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

During the six-month period under review, the Company's portfolio suffered realised and unrealised impairment in value resulting in the net asset value per share of the Company being decreased by 14% as compared with a downward correction of the Hang Seng Index by approximately 18%.

Having regard to market expectation of no immediate rise in the US interest rate, the Hang Seng Index had appreciated until May but did not have the momentum to break through the resistance level at 12,000. It dropped thereafter with the downslide of the US market due to softening of leading indicators in the USA.

Accountancy scandals and corporate governance issues in the PRC and the USA have precipitated investors to turn sceptical about equity investments. The tumbling US stock markets sent the local shares prices down and led to investors losing confidence in equity investments. The proposals in late July by the Stock Exchange of Hong Kong Limited for delisting of listed equities which do not fulfill certain criteria, added pressure to the local market which led to the under-performance of the local stock when compared with other major markets.

09

Prospects

Despite the unsatisfactory performance of the Company in the first half of our financial year due to the sluggish investment sentiment and economy, we are conservatively optimistic regarding our future performance of the investment in the medium term.

The recent half percentage point cut of the interest rate in the USA led to a near to zero deposit interest rate in Hong Kong. This will push liquid fund into the investment market, looking for high yield equities.

On the positive side, changes in the government's housing policy would improve the property market. This together with a stabilisation of the unemployment rate, may hint that the economy has bottomed out. The economy resumed slight positive growth in the second quarter of 2002, giving the hope that Hong Kong is gradually stepping out from recession and the stock market will be able to surge higher in the coming months.

The growing opportunities following PRC's accession to WTO and possibility of future reduction in interest rates will also provide catalyst to Hong Kong securities market.

However, the recent second round of terrorists attacks on various parts of the world, especially in Bali and the Philippines of the Asia region, has led to investors raising concerns that unpredictable risks do exist in the investment market. The US anti-terrorism measures and its attitude towards Iraq will have a significant effect on the global investment market.

Furthermore, Hong Kong's budget deficit surged to a record high of HK\$56 billion for the first five months of the fiscal year. The continuous declining Composite Consumer Price Index also suggests that our economy may not be able to improve significantly in the short term.

Financial review

Liquidity and financial resources

As at 30 September 2002, the Group had bank balances and cash of HK\$2,102,338 (31 March 2002: HK\$7,479,550) and had no other borrowing. The Directors believe that the Group has sufficient financial resources to satisfy its commitments and working capital requirements.

Capital structure

Prior to the expiration of the warrants on 30 June 2002, 49,064,200 warrants were exercised and 49,064,200 ordinary shares were issued at a cash consideration of HK\$0.12 per ordinary share. Save as disclosed, there has been no change to the capital structure of the Company since 1 April 2002.

EMPLOYMENT AND REMUNERATION POLICIES

As at 30 September 2002, the Group employed a total of 5 full-time employees, including the executive directors of the Group. Employees' remuneration are fixed and determined with reference to the market rate.

SHARE OPTIONS

The Group does not have any share option scheme.