Management's Discussion and Analysis of the Group's Performance

Revenue and Profits

The Group recorded a loss attributable to shareholders of US$98 million (2000: profit US$86 million) in the year to 31 March 2001. Detailed analysis of these figures can be seen in the audited consolidated profit and loss account. As indicated in the Review and Prospects section, these figures are not strictly comparable as the nature of the Group has changed considerably in the intervening period. Most notably the Group has (1) distributed through a dividend to shareholders 80% of its holding in the Eastern European business of Regent Europe Limited and sold the remaining 20% for cancellation on 30 March 2001, (2) acquired the whole of Interman Holdings Limited, including the 65% owned subsidiary bigsave Holdings plc, and (3) through the Korean associate, KoreaOnline Limited ("KOL"), seen the effect of the acquisition of a number of business interests, notably in merchant banking and insurance, which it did not have throughout the whole of the comparative period. KOL also acquired control of Ileun Securities Co Ltd during the year.

39% of the loss is primarily related to activities in Korea through KOL, which is responsible for US$38.7 million in post tax losses inclusive of goodwill impairment of US$32.9 million. There were a number of reasons for this loss including the impact of inherited book of high loss ratio business and restructuring costs within Regent Insurance Co Ltd, additional costs of developing an e-commerce platform for the Korean operations and the effect of structural problems within the Korean economy generally which led to depressed operating conditions for financial services. Additionally, KOL suffered significant losses due to exposures from loans obtained by deception within its associate, Regent Merchant Bank and subsidiary, Regent Securities Co Ltd. Subsequent to the year end, Regent Merchant Bank was merged with Tong Yang Investment Bank and the businesses involved in insurance and asset management ceased to operate with appropriate provision being made for their closure. During the corresponding period last year the Group recorded profits both from its stake in the local operating businesses, now part of KOL, and from the profitable disposal of part of its stake in the businesses when KOL was created.

Additionally the Group has recorded losses of approximately US$39.6 million, inclusive of goodwill impairment of US$36.5 million, net of minority interests, from ownership of its internet retailing subsidiary bigsave Holdings plc. Ownership of this entity commenced in May 2000 and, whilst modest initial operating losses were anticipated at the time of purchase, the environment for e-commerce has worsened significantly. This has necessitated a change of strategy and the management of this subsidiary have decided to restructure its operation leading to the closure of several of its operations. The closure costs are fully provided within these losses.

Other activities of the Group including asset management, particularly in private equity, and the holding of stakes in technology related enterprises produced a loss after taxation of US$20 million. This includes prudent provisioning on a portfolio basis in the expectation that certain of the technology stakes will be the source of a loss to the Group in due course.

Costs

The Group has always taken care to keep its operational costs as low as possible, conducive with efficient operations. At the end of the period under review the number of employees involved with wholly owned core business amounted to 23. The group of bigsave Holdings plc, whose results are consolidated, employed 37. A bonus scheme is operated for the core staff based on a percentage of profits earned. No provision for bonuses has been made for the year.

Management's Discussion and Analysis of the Group's Performance (continued)

Taxation

Although the losses incurred in the current year mean that taxation provisions are not required, certain enquiries lead the Directors to believe that it is prudent to provide against tax on profits of previous years. Although the Group denies any liability, a provision has been made as disclosed in note 10 for tax liabilities which may arise in future in respect of past profits.

Goodwill

As disclosed in note 8, the Group has decided that the changes to the structure of the KOL group, in particular as they relate to Regent Insurance Co Ltd, necessitated the formal write off of goodwill attributed to this associate. Accordingly US$49 million has been written off through the profit and loss account and has been offset against the exceptional gain arising as a result of the discontinuance of this business within KOL. The goodwill involved had previously been fully offset directly against reserves and, as a result, this action has no net effect on shareholders' funds.

Additionally, due to the restructuring within bigsave Holdings plc, the major asset of Interman Holdings Limited when it was acquired in May 2000, the Group has also decided to write off all attributable goodwill in a similar manner. Accordingly US$36.5 million has been written off through the profit and loss account. As with the KOL goodwill, the amount involved had previously been fully offset directly against reserves and, as a result, this action has no net effect on shareholders' funds. In this case, shareholders should also note that the consideration for the acquisition was met wholly by the issue of new shares at a premium as shown in note 28.

As the remaining goodwill in relation to other assets amounted to US$3 million, a relatively small amount by comparison, the Group has also decided to write off all remaining goodwill through the profit and loss account at the same time. Full details of movements in goodwill can be seen in note 8.

Shareholders might also care to note that the accounting treatment for future purchased goodwill requires that it be capitalised and amortised where the transaction took place after 1 April 2001. This is a result of a change in Hong Kong GAAP. The Group now as a result carries no goodwill on its balance sheet.

Balance Sheet

The largest single investment of the Group is its stake in KOL which was responsible for some 75% of the total shareholders' funds at 31 March 2001 under the Group's accounting policies.

The majority of the remaining Group assets comprise 26 technology related investments managed under the branding of Interman. These are also held as part of the Group's activity of assisting in the development of e-commerce platforms.

The Group had borrowings of US$7.5 million at the date of the balance sheet which had all been advanced to KOL to assist it in its operation as indicated in the interim report. Appropriate security was in place and the amount has been fully repaid.

Management's Discussion and Analysis of the Group's Performance (continued)

Changes to Investments

The distribution of Regent Europe Limited (now Charlemagne Capital Limited), as an in specie alternative to a cash dividend, was completed in June 2000. The total amount of the dividend, which was accrued in last year's annual financial statements, was US$23.3 million. The calculation of the dividend is based on the relative proportions of those shareholders who chose HK17 cents of tangible value by taking an in specie distribution and those who took HK12 cents in cash. The purchase arrangements in respect of the dividend to which certain Directors of the Company were parties, as outlined in the circular to shareholders, gave rise to a loss of US$1.1 million which has been charged to the profit and loss account. This represents the difference between HK17 cents and HK12 cents on those shares involved. Accordingly, the total reduction in shareholders' funds was US$24.4 million. If all shareholders had chosen the in specie alternative, the maximum amount would have been US$25.9 million.

On 31 March 2001, the Group elected to sell the remaining stake in Regent Europe Limited back to that company for cancellation at a price slightly above the carrying value. This realised a net cash inflow of US$3.45 million for the Group, representing the aggregate purchase consideration at US$6.3 million and the deduction of (i) an amount of US$2.1 million being the total estimated debt due and owing from the Company to Regent Europe Limited as at 31 January 2001 and (ii) an amount of US$750,000 due and owing from the Company to Regent Europe Limited arising from the retention by a custodian of cash due to Regent Europe Limited for the purpose of reducing borrowings of the Company.

The acquisition of Interman Holdings Limited in May 2000 brought a broadly based portfolio of technology ventures within the ownership of the Group. Allowing for changes to the purchase consideration for accounting purposes based on a revised share price for the Group as disclosed in note 34, the overall value of the purchase was US$45.5 million of which US$36.5 million had been transferred to goodwill reserves. In view of the general climate relating to such ventures and the provisions made by the Group, the Directors have decided to write off the goodwill through the profit and loss account.

On 19 March 2001, the Group sold Dynamic Value Group Limited, a wholly owned subsidiary of Interman Holdings Limited, to AstroEast.com Limited, an associated company, in exchange for new shares. In conjunction with shares purchased for cash in an underwritten rights issue of AstroEast.com Limited this company became a subsidiary (51% owned) on that date. Goodwill of US$1.5 million resulted from this transaction which has been written off through the profit and loss account.

Management's Discussion and Analysis of the Group's Performance (continued)

Future Funding

As at 31 March 2001, the Group had borrowings of US$7.5 million on an overdraft facility which had been used to provide working capital to KOL. The loan is secured by an assignment of the debt due to the Group by virtue of loan made by the Group to KoreaOnline (Labuan) Limited, a wholly-owned subsidiary of KOL, and a pledge over 25,000,000 shares in Regent Securities Co Ltd being held by RPG (L) Ltd, a wholly-owned subsidiary of KoreaOnline (Labuan) Limited, and guaranteed by RPG (L) Ltd and KoreaOnline (Labuan) Limited. The amount has been fully repaid.

KOL has subsidiaries which borrow on a secured and unsecured basis from time to time. At 31 March 2001, total borrowings in KOL's consolidated balance sheet were US$1.5 million.

It is possible that businesses which are either subsidiaries or associates of the Group may require funding as their businesses are developed. It is expected that the bulk of such funding will be obtained from external sources but, dependent upon amount and duration, it may be that funding will be made available by the Group from its internal resources or bank borrowings.

Management of Risks

The change in the nature of the Group's activities mean that its primary risk is linked to the operations and market exposures of its subsidiaries and associates. In KOL's case the exposure is to the Korean economy, its currency and its credit and equity markets. The responsibility for management of these risks rest with KOL management. The Company will monitor its exposure through working closely with KOL management.

Through investments of Interman Holdings Limited in technology related ventures, the Group is exposed to the technology sector. The viability of the business model of these companies and the ability to control their operating cash requirements are key to their development and hence the value of the Group's investment in them. The Group's specialist investment managers closely monitor the operations and performance of these companies.

The Group has not taken any currency hedge against the investments in Korea and through Interman Holdings Limited. This is because it has taken a long term view and a hedge against such positions would not be cost effective.

In general terms, the Group will operate both equity market and currency hedges from time to time partly for hedging purposes and partly on a speculative basis. Speculative investment is carefully controlled, in accordance with parameters set by the Board, in short term situations where physical assets may be inappropriate. There is strict segregation between the investment management and settlement functions.

In the course of the Group's normal operations, margin deposits of varying amounts of cash, are held by the Group's brokers. As at 31 March 2001, the amount of these margin deposits was US$6,000 (31 March 2000: US$771,000).

In terms of the total operations of the Group, activities of this nature are of limited materiality.