DISCUSSION AND ANALYSIS OF THE GROUP'S PERFORMANCE

Business review

For the six months ended June 30, 2001, the Group recorded a consolidated turnover of HK$4,383,000. Loss before taxation for the period was HK$5,777,000, representing a significant improvement of 77% over that of the corresponding period last year. Based on the weighted average of 3,632,428,440 shares in issue during the period, the basic loss per share was reduced to 0.17 cents as compared with 2.38 cents of the corresponding period last year.

Investment activities

Since disposing of the retailing business in 2000, management repositioned the Group's business to investing in technology-related ventures primarily in China. A number of investments were made and committed in 2000. However, on the back of a deteriorating market condition for technology companies, the Group adopted a cautious approach to making new investments and instead focused on strengthening the business of existing investments. In early 2001, additional capital of US$1,000,000 was injected into Egochina together with US$2,000,000 from minority shareholders to further capitalize the company for its business development. In April, the Group completed the acquisition of 49% of a leading digital network provider and information system integrator in Beijing. The Group also completed the acquisition of a 14.7% stake in 9xo9.com, a wine and sugar trading portal with the top 10 wine producers in China as members, for a total investment of US$2,000,000.

During the period, the Group shared approximately HK$2,732,000 in profits from its portfolio companies. Management believes that over the medium to long term, the portfolio of investments should provide the Group with significant capital growth value.

Investment properties

The income from investment properties dropped by over 90% to approximately HK$150,000. The drastic decrease was due to the continuous decline of the real estate market caused by a slowing economy, both the occupancy rate and the rental yield on investment properties suffered as a consequence.

In February, the Group disposed of a commercial property at a consideration of approximately HK$4,800,000. The profit on the disposal was approximately HK$500,000. The disposal was in line with the Group's strategy to gradually dispose of the entire property portfolio.

Liquidity and financial resources

The Group maintained a strong financial position. At June 30, 2001, the net working capital of the Group totaled approximately HK$159,831,000, representing an increase of 30.5% over that at December 31, 2000.

The Group primarily finances its operation with internal resources and banking facilities provided by its principal bankers in Hong Kong. At June 30, 2001, the Group's cash and bank balances totaled approximately HK$145,120,000, together with a bank loan of HK$31,525,000. Apart from this loan, the Group had nominal amounts of current liabilities and commitments. The gearing of the Group was closely monitored by management so as to maintain a healthy financial position at all time.

Pledge of assets

Certain investment properties and time deposits of the Group, together with corporate guarantees of the Company, are used to secure general banking facilities. The outstanding balance as at June 30, 2001 of such facilities was approximately HK$31,525,000.

Human resources and management

The Group recognizes the importance of high calibre and competent staff and has a strict recruitment policy and performance appraisal scheme. Remuneration packages are largely in line with industry practice. Bonus and other merit payments are linked to the performance of the Group and of the individuals as incentive to optimize performance. In addition, share options have been granted to certain eligible directors and employees of the Group in accordance with the terms of the approved share option scheme adopted by the Group.

Management will strive to improve employer-employee relationship in an effort to increase production, efficiency and loyalty.

Prospects

Management believes the China market will remain the center stage for global investors with her imminent accession to the World Trade Organisation. Abundant investment opportunities will arise in the process in which China transits into a technology based industrial economy. The Group is well positioned to take advantage of this transition with the market knowledge and investment expertise of its major shareholders.

While building an investment portfolio, management will also be alert for opportunities with which the Group could build into a core business. This strategy will require significant resources but will eventually create substantial value for shareholders. The Group will pursue this strategy with an aggressive yet cautious approach. As for market conditions, it is expected that sentiments will begin to recover later this year or early next year. When market condition improves, we should see our portfolio companies become more active in terms of pursuing initial public offerings and/or mergers and acquisitions that would in turn create value for our investments. Meanwhile, the Group will build on its existing platform and maintain a healthy operating environment with stringent cost control measures. Management is confident that the business strategies currently in place will drive the Group into sustainable long-term growth and profitability.