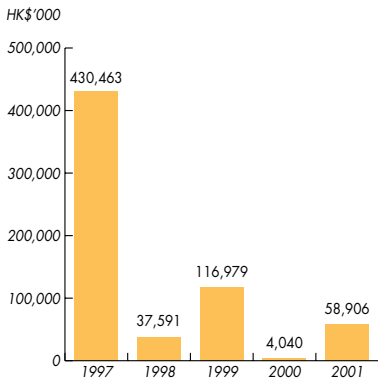


## MANAGEMENT DISCUSSION AND ANALYSIS

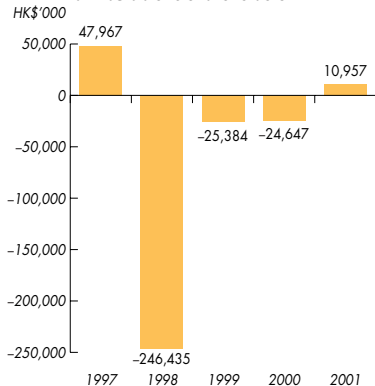
### Results

For the six months ended 30 June 2001, turnover of the Group was HK\$58,906,000, representing an increase of 13.6 times over HK\$4,040,000, for the corresponding period in 2000. During the period under review, the Group was able to realise operating profit of HK\$12,403,000 when compared with substantial losses recorded for years. Net profit from ordinary activities attributable to shareholders was HK\$10,957,000.

**Turnover**



**Net profit/(loss) from ordinary activities attributable to shareholders**



On 4 June 2001, the Group completed the acquisition of the entire interests in Dawning Information Industry Company Limited ("Dawning") for a total consideration of RMB215,000,000 (approximately HK\$201,000,000). The core business of the Group's activities has shifted to the new and advanced technology industry and the Group has laid a solid foundation for the Group's business development in the new and advanced technology industry. During the period under review, since the Group adhered to the strategy of taking every opportunity to realise property investments so as to concentrate its resources in profitable and advanced technology-oriented operations, and no further provision was required to be made for property investments, the management expects that the Group's performance will be further improved in future.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Results (continued)

In June 2001, the Group placed 750,000,000 new shares in total, raising net proceeds of approximately HK\$190,000,000, of which approximately HK\$70,000,000 was used to expand the production capacity of Dawning and approximately HK\$60,000,000 was to be applied in enhancing Dawning's research and development facilities. Except for non-interest bearing convertible notes of HK\$100,467,290 issued for the acquisition of Dawning, the Group had no bank loans and other long term borrowings prior to the placement of new shares and as at 30 June 2001. The gearing ratio was about 0.17 (as at 31 December 2000: approximately 0.01), and the net cash balance in hand amounted to approximately HK\$270,000,000 (as at 31 December 2000: approximately HK\$110,000,000). The Group has no significant exposure to foreign exchange rate fluctuations. That is, the Group enjoys a sound and healthy financial position. The balance of the proceeds from the placement of new shares may be used to further enhance and enlarge the assets basis and scale of the Group.

With the completion of the acquisition of Dawning, the total number of employees of the Group as at 30 June 2001 increased substantially when compared with the corresponding period in 2000.

### Business Review

#### *Dawning*

Dawning is the only manufacturer specialising in the production of full spectrum of servers (inclusive of UNIX/RISC) in the PRC and is also the only system integrator capable of supplying high-performance computers and high-end servers bearing its own brand name in the PRC. Besides, Dawning is the pioneer in the development of the high-end computer industry and still secures a leading position in the industry. Mr. Li Guojie, the head of the Computation Institute of the Chinese Academy of Science, is a co-founder and the chairman of Dawning. He still leads the internal research and development teams of Dawning to accomplish the aggressive marketing strategy of enlarging the market shares in the domestic and international market.

During the period under review, Dawning's results for June 2001 contributed profit of over HK\$10 million to the Group. The management expects that Dawning will make substantial contribution to the Group in the second half of the year because operations of Dawning is marching through a period featured by high growth rate.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### **Business Review (continued)**

#### *Mings Vision*

Mings Vision Medical Development (Shenzhen) Co. Ltd. ("Mings Vision"), the Group's medical arm in the field of ophthalmology treatments business, operates 4 optical centers in the PRC. Operational efficiency of Mings Vision has improved along with the sophistication of its business. Meanwhile, Mings Vision has formed a strategic alliance with certain relevant companies in the PRC. Synergy was generated as a result, which facilitated the cooperation in the development of ophthalmology treatment business, speeded up the pace in and strengthened the capability of business development with specific expertise and resources of their own. The ultimate goal of the above measures is to further enlarge the market share.

#### *Property Investments*

The Group still holds non-core property investments and the performance of which remains relatively stable. During the period under review, service apartments operated by the Group in Shanghai generated some profit from the rental income, net of expenses.

### **Prospects**

#### *Dawning*

It is expected that the total turnover of Dawning servers has substantial increase when compared with 2000, of which the sale of Tiankuo rackmount type servers will record the highest percentage of increment. As at the date of this announcement, governmental orders comprising 1,040 units of servers valuing at about RMB130,000,000 have been received. The sales of Tianchao super servers will sustain an increase, and its turnover accounts for 7.5% of the total sales volume. The sales volume of Tianyan UNIX servers remains stable and its turnover accounts for approximately 3.3% of the total sales.

In connection with the distribution channels, Dawning will give adequate and efficient support to distributors and partners. At present, Dawning has approximately 600 distributors and partners. Dawning will make every endeavour to attain a planned distributor hierarchy towards the end of the year, of which gold distributors, silver distributors and bronze distributors will account for 20%, 30% and 50% and the required target rates are 60%, 40% and 20% respectively. Meanwhile, with this mechanism as the base, Dawning will put much effort to solicit distributors with specific industrial background.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Prospects (continued)

#### *Dawning (continued)*

Dawning will strive to secure more room for development in order to enlarge its market share and enhance its profitability. Firstly, Dawning will extend its production scale by establishing additional production bases for new Dawning servers. With respect to corporate strategies, Dawning will adopt a technology and market-oriented approach. Plans include assigning engineers to the US to work with the support of technicians there to develop main boards of high performance servers based on Power PC. In addition, Dawning cooperates with Ministry of Information Industry to develop high performance national security servers with the support from Dawning and the State High Performance Computer Engineering Centre under the Computation Institute of the Chinese Academy of Science.

Furthermore, Dawning entered into a cooperation agreement with a manufacturer of information technological products in Finland in May 2001, whereby both Dawning and the manufacturer would work together to market VDSL (Very High-Speed Digital Subscriber Line) products and related technological support services in the PRC.

#### *New Investments*

In order to further strengthen the long-term future development basis of the new and advanced technology operations of the Group, the Group intends to extend the scope of investments which can bring better results and returns to the Group. The focus of the investment policy of the Group is the information-oriented advanced technology industry. The selected investee projects shall be featured by: (1) promising technological creativity; (2) encouraging growth and expandability; (3) satisfactory operating track record; (4) sound asset quality; and (5) with scientific management framework.

In July 2001, a wholly owned subsidiary of the Group entered into an agreement with Wu Han Jingke Information Science & Technology Investment Co., Ltd., a capital of approximately RMB35,000,000 will be injected in Wu Han Jingke Information Industrial Co., Ltd. ("Jingke Information") and the Group will hold 51 % interests in Jingke Information upon the completion of the capital injection. As at the date of this announcement, the Group has injected approximately RMB8,000,000 into Jingke Information. Jingke Information is mainly engaged in the production of quartz oscillators applied in an extensive range of electronic products, including timers, wireless communication equipment and computers. Turnover of Jingke Information was about RMB30,000,000 in 2000 and profit of around RMB6,000,000 was recorded. Jingke Information intends to expand its operating scale and it is expected that turnover and profit will be increased significantly in 2002.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Prospects (continued)

#### *New Investments (continued)*

The Group has been developing and investing in the advanced technology and information industry with solid business in the Greater China region since its business reconstruction. The Group has set this as its strategic and long-term development goal. With the PRC's imminent accession to the World Trade Organisation and the economic benefits brought about by the successful application for hosting Olympic Games in Beijing in 2008, the management expects that there will be substantial growth potential in the PRC and the demand for the advanced technology industry from the State will also grow continuously. In addition to Jingke Information, the Group is taking an active role in identifying quality investment opportunities in advanced technology projects and expanding the Group's scope of business in the area of information industry and advanced technology.

With the support from all shareholders, the management anticipates that through the participation in shareholding, investment holding and the introduction of new and quality advanced technology projects and operations, the Company will become a leading new and advanced technology holding company.

## DIRECTORS' INTERESTS IN SECURITIES AND RIGHTS TO ACQUIRE SHARES

Pursuant to the general mandate granted by the shareholders to the Directors at the annual general meeting of the Company held on 10 June 1997, the details of share options granted to the independent non-executive directors remained outstanding are as follows:

Name of director	Number of outstanding options as at 30 June 2001	Exercise price	Exercise period
Lee Kuo Ching, Stewart	900,000	HK\$0.38	15 July 1997 to 14 July 2007

Options granted to Mr. Lee Kuo Ching, Stewart constituted a connected transaction to the Company under the Listing Rules. Details of the grant of such options were announced to the public according to the Listing Rules on 7 July 1997.

## DIRECTORS' INTERESTS IN SECURITIES AND RIGHTS TO ACQUIRE SHARES (continued)

Pursuant to the new share option scheme approved by shareholders on 17 November 2000, the Company granted options with an exercise price of HK\$0.1945 per share to directors and certain employees on 9 March 2001. Details of share options granted to the directors are as follows:

Name of director	Number of options granted	Number of options exercised	Number of outstanding options as at 30 June 2001	Exercise period
Li Heihu	60,000,000	Nil	60,000,000	21 March 2001 to 16 November 2010
Chen Chao	30,000,000	Nil	30,000,000	21 March 2001 to 16 November 2010
Gong Hanbing	30,000,000	Nil	30,000,000	21 March 2001 to 16 November 2010
Li Jingqi	13,500,000	Nil	13,500,000	21 March 2001 to 16 November 2010

Apart from above, at no time during the period under review was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors or chief executives or their associates, respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

As at 30 June 2001, the interests of the Directors and the chief executive of the Company, as recorded in the register required to be kept under section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), save for the share options granted by the Company as disclosed above, none of the directors or their associates had any personal, family, corporate or other interest in the shares and options of the Company or any of its associated corporations as defined in the SDI Ordinance.