

## MANAGEMENT DISCUSSION AND ANALYSIS

### **BUSINESS REVIEW**

#### **Overview**

The Group has a great momentum in the past six months. Having a turnaround in the year 2000, the Group has been ambitiously participating in the markets of property, finance, information technology as well as exploring in the environmental protection industry. The purpose of the strategic expansion is to establish a conglomerate and generate a reasonable return to all stakeholders.

As at the report date, the total investment for the completed merger and acquisition projects ("M&A") are over HK\$132 million including 401.5 million new shares of the Company have been issued.

Besides, the Group has raised approximate HK\$130 million by placement of 160 million and subscription of over 625 million new shares as at the report date.

After a series of M&A, the asset base of the Group is significant broaden and widen. However, the newly acquired business is in the development stage making a slight contribution to the Group. The Board of Directors (the "Directors") believes that the newly acquired businesses would strengthen the Group's investment portfolio and generates an optimistic return when they are in the growth and mature stages.

#### **Results**

For the six months ended 30 June 2001, the Group recorded the turnover of HK\$25,844,000, representing 85% increase, net profit attributable to shareholders is HK\$1,846,000, comparing with the same period of last year, it represented 19% increase. Earnings per share was 0.28 cents.

The principal activity of the Company is investment holding while its subsidiaries are engaged in property development and investment, finance, information technology development, environmental protection as well as investment activities.

The Group has a work force of 74 staff. The Group employs and remunerates its staff based on their performance and experience. In addition to basic salary payments, staff members are covered by the Group's health and medical scheme, discretionary bonus, share option scheme and mandatory provident fund scheme.

## Property

The property investment portfolio of the Group comprises of commercial, industrial and residential premises in Malaysia, the PRC and Hong Kong. In the past six months, it provided stable recurrent income to the Group, representing an increase of 272% when comparing to the same period of last year.

### *Malaysia*

After the period end, the Group has engaged to acquire an additional 15% interest in Pioneer Heritage Sdn. Bhd. ("Pioneer") at a consideration of HK\$18,013,000 making an aggregate of 70% interest held. Pioneer is principally engaged in property investment, particular in the letting retail shoplots in Johor Bahru. Because of the phenomenal concept of Hypermarket and accessible network, it generated promising income to the Group in the past six months.

In addition, the Group is engaged in a housing project in Johor Bahru by acquiring 100% interest in Dual Aim Sdn. Bhd. ("Dual Aim") at a consideration of HK\$16,200,000 after the period end. Dual Aim is principally engaged in property investment, particular in development and sale of commercial and residential units. The Directors believe that the Malaysian property market has potential for exploration and will generate stable rental income to the Group.

A residential housing project in Melaka is in progress according to schedule. It will comprise of eleven units of bungalow lots, fifteen units of double-storey shoplots and three hundred and sixteen units of double-storey terrace housing lots. The project is expected to be completed next year.

### *The PRC*

The investment in Hanzhong Guangchang, Shanghai contributed recurrent rental income to the Group for the past six months. The occupancy rate of the commercial premises and the car parks were over 95%.

On 13 September 2001, the Group had entered an agreement with Beijing XiCheng Housing Construction Development Company in respect of forming Chinese-Foreign Equity Joint-Venture Company for property development in XiCheng District, Beijing. The total investment for the proposed development Phase I locating at Feng Sheng Area (Area B) costs RMB360 million. The size of the site is about 20,045 square metres and the total buildable floor area above ground is about 44,880 square metres. It is expected to be completed in 2003.

### *Hong Kong*

The Group's investment properties include the first class office and the industrial premises. During the period, the occupancy rate of the investment property was over 90%, and contribute steady rental income to the Group.

## **Finance**

### *Brokerage*

A 80% owned brokerage contributed an income to the Group during the period. Owing to the worldwide economic slowdown, it affects the performance of brokerage industry. For the six months ended 30 June 2001, the turnover of the brokerage arm was decrease.

### *Corporate Finance*

In the period, the Group has acquired 100% interest of Genesis Strategic (Holdings) Limited ("Genesis") at a consideration of HK\$5.1 million. Genesis provides a wide range of investment advisory and corporate finance services. This not only strives the Group to become a "One-Stop" financial institution but also broadens the Group's asset and income base. As at 30 June 2001, Genesis recorded a stable growth of client base and generated a satisfied turnover to the Group.

Subsequent to the period under review, the Group has acquired 30% interest of Human Online. Com Limited ("HOL") at a consideration of HK\$35 million. HOL is specialized in projects matching with strong expertise in finance and corporate management. The Directors believe that the investment can strengthen its exiting core business and the income base.

## **Information Technology**

### *Information Technology Development*

In the past six months, the information technology recorded a loss of about HK\$1.2 million, representing an increase of 47% in loss to the last period. It mainly concentrates on educational software development, provision of multimedia training and trading of computer products and related accessories in Singapore, Hong Kong and the PRC. The increasing cost and fierce competition results in low profit margin.

To meet the challenges of the knowledged-based "New Economy", the use and demand for e-business is influx. In this light, the training centre for multimedia in Central has recorded a full occupancy rate and contributed a stable rental income to the Group.

### *Wireless Broadband*

The Company has further stepped into the information technology industry by acquiring 60% interest in Xswim (Holding) Limited (“Xswim”) at a consideration of HK\$16 million in the period under review. Xswim is a wireless broadband service provider in the PRC and engages in trading of IT hardware in Hong Kong. The existing client base of Xswim in the PRC provides the long term financial benefits to the Group and also complement and integrate the core business horizontally and vertically in terms of software application and trading of computers in South East Asia. As at 30 June 2001, Xswim generated a turnover of HK\$4.5 million.

### **Environmental Protection**

The environmental protection is a new component of the Group’s investment portfolio. The Directors identify the importance and potential of the environmental protection market and penetrate in the industry accompany the strategy partners.

### *Combat Pollution*

Subsequent to the period under review, the Company acquired 22.5% interest of Grandy Environmental Holdings Limited (“Grandy”) (formerly known as Lotus Sea Holdings Limited) at a consideration of HK\$20 million. Grandy is principally engaged in the provision of services to combat pollution problems, including waste water treatment and indoor air quality management and sale of energy saving products in Hong Kong. Also, Grandy has secured a world wide exclusive distribution right (except Japan) of an organic environmental product originated from Japan. The investment in Grandy is one of the corporate strategies to enhance the Group’s long-term growth and to take a good investment opportunity to diversify business.

### *System Monitor*

Subsequent to the period end, the Company acquired 50% interest in China Anti-Flooding System Monitor Limited (“China Anti-Flooding”) at a consideration of HK\$30 million. China Anti-Flooding is principally engaged in the development and sale of flood monitoring system with telemetry capability and services in areas of hydrology in the PRC and works closely with the professors, researchers and the development departments of Beijing University as well.

At the same period, the Company acquired 50% interest in China Environmental System Monitor Limited (“China Environmental”) at a consideration of HK\$26 million. China Environmental is principally engaged in the development and sale of air and factory waste pollutants detection and pollution monitoring system with telemetry capability in the PRC.

## **Fund Raising**

### *Placing and Subscription of Shares*

In May 2001, a substantial shareholder of the Company, Kong Fa Holding Limited ("Kong Fa"), in which the directors have controlling interest, placed 60 million shares to the independent professional and institutional investors at HK\$0.22 each. In return, the Company allotted and issued 303,858,720 shares at the same price to Kong Fa making the net proceeds of approximately HK\$66.35 million.

In June 2001, Kong Fa placed 100 million shares to the independent professional and institutional investors at HK\$0.20 each. In return, the Company allotted and issued 321,750,322 shares at the same price to Kong Fa making the net proceeds of HK\$63.65 million in July 2001.

## **Financial Review**

The financial position of the Group remain healthy and liquid. As at 30 June 2001, the total shareholders' fund of the Group amounted to HK\$273,313,000, compared to HK\$189,250,000 as at 31 December 2000. The debt ratio (based on the sum of current debt and long-term debt over the equity) and current ratio of the Group as at 30 June 2001 were 0.18 and 2.0 respectively while that ratio as at 31 December 2000 were 0.24 and 1.47.

The bank and other borrowings of the Group were about HK\$48,004,000 of which HK\$26,004,000 (equivalent to MYR12,500,000) was denominated in Malaysian Ringgit. The bank and other borrowings bore interest at prime rate plus 1% to 3% while the borrowing of MYR12,500,000 bore interest at 1% above the banker's base lending rate in Malaysia. The Group's bank loans and other borrowings are secured by mortgages over the Group's land and buildings, investment properties and certain time deposits.

The Group's business operation and investment of the Group are transacted in Hong Kong, the PRC, Singapore and Malaysia, and its revenue and expenditure mainly denominated in HKD, RMB, SGD and MYR. Since the recovery from the Asian financial turmoil, it is expected the fluctuation of foreign rate is minimal.

## **Prospects**

The Hong Kong economy has been at a slowdown in the first half of 2001. As a globalization of economy which links among countries, Hong Kong is directly affected by external environment. US has dramatically cut the interest rate totaling 2.75% up to July 2001 as to boom up its economy from sliding into recession. Correspondingly, the Hong Kong economy is in downturn as indicated by mild growth in export, climbing up unemployment rate and sluggish retails sales.

On the other hand, China has implemented the Tenth Five-Year Plan, accessed in the World Trade Organisation and is the host country of the 2008 Olympia Game, therefore, it will create various business opportunities. Hong Kong is an agent between China and foreign investors so that it would generate huge services income from the arising business opportunities.

Hong Kong economy has undergone major changes and re-integrated with China after the financial turmoil and change of sovereignty in 1997. It would capitalise on such potential and consolidate its leading with sparked off to search for new growth drivers as the metropolitan city of southern China.

Taking into account the competitive advantages of Hong Kong, the Group would position itself as a multinational conglomerate based in the Southeast Asia. The Group is not only to maintain current active role in property development and investment, but also to explore in the new industries additional to information technology and finance. After the period end, the Group has successfully penetrated in the environmental protection industry in the PRC.

In the face of rapid expansion, the Directors adopt the decentralization management providing flexibility for the business units to formulate their strategies, consequently, it will maximise the Group's return. The Group also recruits talents to strengthen the management team and contribute professional knowledge to the businesses.

Besides, the financial status of the Group is health and stable. In order to maximise the rate of return to the shareholders, the Group would be consciously in cost and resource allocation with competence.