

MANAGEMENT DISCUSSION AND ANALYSIS

Review of operations

The pace of economy recovery of Hong Kong is weakened by the slowdown of the global economy. Sluggish property market, stagnant wages, high unemployment rate and persisting deflation continue to hinder consumer spending. The year 2001 remains challenging for the Group in such economic environment.

During the first half of 2001, the Group recorded turnover of HK\$333,878,000, which is almost sustained at a constant level as compared to the last corresponding period of HK\$339,336,000. Net loss was HK\$95,452,000 for the six months period ended 30 June 2001. The substantial loss for the period was mainly accounted for the revaluation deficit of the Group's properties amounting to HK\$84,041,000. The Group's gross profit from operations, before the property revaluation deficit, was HK\$14,532,000, subsequent to our dedicated effort to streamline operations. Properties and related liabilities have been sold as at completion of restructuring scheme on 3 September 2001.

In face of intense competition in the travel industry, the Group has been revising its sales-mix and clientele. Our corporate client base has been broadened and the star cruise package sales to organisations have been improving in the last six months. The Group maintained its sales level and quality of travel products and services to our customers at controllable costs.

Charges on Group assets

As at 30 June 2001, the Group's bank borrowings were secured by:

- (i) Pledges/mortgages over the Group's land and buildings and investment properties with a carrying value of approximately HK\$97,200,000 (31 December 2000: HK\$175,900,000);
- (ii) Pledges/mortgages over the Group's properties held for sale with a carrying value of approximately HK\$1,443,000 (31 December 2000: HK\$1,443,000);

Contingent Liabilities

There was no material change in contingent liabilities compared to the most recent published annual report, except the following case:

The outstanding litigation in respect of a claim made by a third party against the Group for HK\$3,000,000 syndication fee in connection with the arrangement of a proposed HK\$30,000,000 loan to the Group as set out in the last annual report, has been settled in September 2001 on the basis that the parties' respective claim and counterclaim be withdrawn with no order as to costs.

Employees

The total number of employees of the Group as at 30 June 2001 was approximately 80. There has been no material change in remuneration policies, bonus and share option schemes from the information disclosed in the most recent published annual report.

Outlook

In line with the successful hosting of Olympic Games, the imminent accession to the WTO, the increase in home and leisure time of the Chinese citizens, coupled with frequent business and non-business trips between China, Hong Kong, Macau and Taiwan, the Group believes that the Greater China is now experiencing a continuous growth in the travel industry, a corresponding growth in the Group's travel business is therefore expected. In order to further expand the travel business, the Group is seeking every opportunity to cooperate and co-invest with institutions which own certain travel spots and travel network in mainland China.

Besides travel business, the Group is also interested in exploring new business and investment opportunities that the Group may find suitable. The members of the Board and I, believe that in the future, inventions and applications of new materials and components will probably be the investments that can bring about a huge profit with a low amount of input. In view of this, the Group is taking positive steps to search for the invention rights of the originality of these new materials and components, which will be turned into end products for sale.

To sum up, the Group expects to establish a strong foundation for high profit growth through the expansion of travel business into the Greater China, and investment in areas of new materials and components.