MANAGEMENT DISCUSSION AND ANALYSIS

For the period under review, the Company continued to focus on building returns by acquiring new assets in the telecommunications and technology sectors in the PRC. At the same time, the management actively sought to dispose of existing industrial based projects. The intention is to maximize the value of the investment portfolio by acquiring businesses which will not only be self-sustainable, but will also create synergies with the Company's other investments.

The operating performance for the period reflected the inevitable adjustments following this business redirection. Turnover decreased 30% from HK$79.4 million last year to HK$55.6 million this year. This was matched by a corresponding drop in expenses, resulting in improved gross margins. However, due to the share of results for certain subsidiaries, a net loss of HK$12 million was reported, compared to a net profit of HK$3.8 million for the same period last year. Loss per share stood at 0.46 cents.

During the period, the Company aimed to strengthen its financial position through portfolio reorganization and asset disposal. With the management's endeavours, several negotiations are now actively underway and a final decision is impending. This will bring in new sources of cash flow to realize expansion plans.

The Company has also continued to undertake vigorous action to recover outstanding guaranteed income from certain industrial projects. The Company has instructed its solicitors to the respective guarantors in February and again in August this year, to comply with their obligations under the guarantees. Furthermore, the Company has been engaged in negotiation with a guarantor to collect the guaranteed profit.

During the reporting period, the Company acquired two new investments, Sharpo Holdings Limited ("SHL") and Excellent Idea Group Limited ("EIG") in pursuit of identified business goals. SHL is engaged in e-commerce consultancy, software development, system integrations and web design while EIG is engaged in the integration and provision of information and data for broadcasting through satellite networks in the PRC. Both investments will complement the Company's existing investments in telecommunications infrastructure in the PRC and are expected to contribute satisfactorily to the Group in the near future.

An early presence in the telecommunications infrastructure sector in the PRC has enabled the Company to establish a solid foothold in the industry. The Company will allocate increasingly more resources to develop this sector and will continue to look for quality investments to enhance portfolio growth.

Looking ahead, the Company is committed to diversifying its income base to restore profitability. To this end, the Company will focus on constructing a telecommunications and technology flagship, to establish a portfolio that will multiply and provide the highest value.

Despite a slow-down in the global economy, the management believes that prospects in the China market will remain promising, particularly in the technology and telecommunications sectors. In addition, China's imminent entry into WTO will certainly hasten the pace of demand growth for these sectors. This will pose considerable potential for the Company. The management will remain responsive and will seek to capitalize on arising opportunities. Upon the disposal of certain investment projects, the Company's financial strengths will be further enhanced. Leveraging the burgeoning demand in the telecommunications sector in the PRC and with the efforts of a committed management team, the Company is well-positioned to achieve satisfactory shareholder returns in the long term.

Finance

The Group has maintained a conservative approach for its funding and treasury policies.

As at 30 June 2001, cash and bank balances stood at HK$47,232,345. The Group's consolidated net borrowings amounted to HK$100,674,000 as at 30 June 2001, of which the Company is only directly liable to HK$41,796,000. The gearing ratio, calculated as total debts to total assets was at 33%. During the period under review, the Company incurred no significant operating leases nor contingent liabilities for any of its subsidiaries or associates. There was also no material change in capital structure and assets of the Group since 31 December 2000.

Employee and remuneration policy

As at 30 June 2001, the Company employed 607 people, 586 of which were based in the PRC. Remuneration packages of the Group's employees are maintained at competitive levels, taking into account the current industry practices, and reviewed periodically on a performance-related basis. The Company has established a share option scheme for senior executives and staff.

DISCLOSURE OF INTERESTS

Directors' interests

As at 30 June 2001, the interest of the directors and chief executives in the securities of the Company and its associated corporations (as defined in the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the register required to be kept under section 29 of the SDI Ordinance were as follows:

Interest in ordinary share of HK$0.20 each

Name of director	Number of ordinary shares Personal interests	Family interests	Corporate interests	Other interests
Chan Chi Keung, Victor	—	—	180,000,000 *(Note)*	—
Chung Chi Shing	—	—	180,000,000 *(Note)*	—
Lin Hoi Kwong	20,000	—	—	—

Note: The shares are held by Smart House Investments Limited, a company beneficially owned by both Mr. Chan Chi Keung, Victor and Mr. Chung Chi Shing.

Save as disclosed above and other than certain nominee shares in subsidiaries held by directors in trust for the Group, as at 30 June 2001, none of the directors and chief executives had any interests in the securities of the Company and its associated corporations as defined in the SDI Ordinance.