MANAGEMENT DISCUSSION AND ANALYSIS

Change in Control

On 18th October, 2001, a share sale agreement (the "Share Sale Agreement") was entered into between Lunghin Enterprise Inc. ("Lunghin") and Primestone Enterprises Limited ("Primestone"), the then single largest shareholder of the Company, pursuant to which Lunghin conditionally agreed to acquire 448,503,921 shares in the Company, representing approximately 23% of the then issued share capital of the Company, from Primestone for a consideration of HK$45,000,000. On 29th October, 2001, the Share Sale Agreement was completed and Lunghin becomes a substantial shareholder of the Company. Messrs. Tse Cho Tseung, Li Yun Hoi, Ho Kin Cheong, Kelvin and Kwok Ka Lap, Alva were appointed the directors of the Company, and Messrs. Wong Chun Hong, Hui Kwok Wai and Wong Yuen resigned as directors of the Company. The new board of directors have extensive experience in the business of trading and engineering, financial management, property development as well as investment.

Business Review

The Group's turnover for the six months ended 30th September, 2001 was HK$21,578,000, representing a decrease of 8% over the same period of last year. Turnover was mainly derived from the trading of air conditioning equipment and motorcycles and provision of engineering related services, which accounted for approximately 80% of the total turnover of the Group. During the six months ended 30th September, 2001, loss attributable to shareholders amounted to HK$31,609,000 (2000: HK$28,993,000).

Property Development

Turnover of the Group's property development joint venture project in Beijing ("Beijing Project"), the PRC for the period under review was RMB110,985,000. Since July this year, sales resulted from this project have apparently been slowed down and loss attributable to the Group amounted to HK$17,614,000. While more intensive building and construction work (including non-salable residents' club house) commences, the Group anticipates the near term capital requirement for the project could be very substantial, thus creating severe financial burden to the Group should the sales be further slowed down or failed to yield the targeted result. Therefore, effort was made to dispose of the Beijing Project in its entirety and consequently the Group successfully secured a buyer to purchase the entire project at a cash proceed of HK$15,000,000.

For the property development project in Sheung Wan ("Sheung Wan Project"), Hong Kong in which the Group owns 60% interest, the scheduled completion date is September 2002. The Group has obtained an extension of the property development loan from its lender until December 2002. The Group expects that the timing for offering the units for pre-sale would be in the first half of 2002 when the outer concrete frame is completed.

MANAGEMENT DISCUSSION AND ANALYSIS *(Cont'd)*

Business Review *(Cont'd)*

Electrical and Mechanical Engineering and Distribution

This segment, being the major contributor to the Group's turnover at present, has been subjected to a slight recession due to a trade dispute between the PRC and Japan, as a result of which PRC has imposed 100% punitive tariffs on import of, among other items, Japan made air-conditioning products. Given the high risk of bad debts and poor market condition due to fierce competition from domestic made low-price replacement, it is expected that the electrical and mechanical engineering market for our high-end products remains stagnant. It is hopeful, however, that with the accession of PRC to WTO and the hosting of Olympics in Beijing, they will shed light to a better prospect to the business of this division. The division has already endeavored to the building up of sales networks in various parts of PRC to accommodate the anticipated growth opportunity.

Department Store

The Group holds 48.73% interest in an associate, Shenzhen Rainbow Shopping Co. ("Shenzhen Rainbow") and has noted a highly unstable profit and loss history from this associate over the past years. The September 11 World Trade Centre event further augmented the economic slowdown and market uncertainty. Therefore, in November 2001, the Group disposed of the entire shareholding of Five Dragons Trading Company Ltd, that holds the Group's interest in Shenzhen Rainbow, for a cash proceed of HK$18,000,000 in order to further improve the Group's liquidity position.

Pharmaceutical Plant

Turnover of Beijing Health Medical Development Co., Ltd. ("Beijing Drug") for the period under review was HK$3,459,000. There being no material changes in this business since we last published our annual report for the year ended 31st March, 2001. The Group has been informed that the premises and production facilities currently operated by Beijing Drug have to be demolished and the land surrendered to the government for other usage, as such relocation is needed and the continuation of the business may be both capital intensive and risky. In light of these, the Group disposed of its entire interest in Beijing Drug at a cash proceed of HK$1,500,000 in November 2001 accordingly.

Information Technology

The Group has continued to pursue vigorous legal action against Mr. Cheng Yuk Kuen, David ("Mr. Cheng") for his breaching of certain provisions of the two sales and purchases agreements entered into between Mr. Cheng and the Group for the acquisition of an aggregate 30% interest in Value-Net Limited ("Value-Net"). At the advice of the Group's legal counsel, the Group has applied for summary judgment against Mr. Cheng in November 2001. Other information regarding the Value-Net case has been disclosed in the Group's latest annual report and the public announcement dated 19th October, 2001.

MANAGEMENT DISCUSSION AND ANALYSIS *(Cont'd)*

Financial Position

The net asset value of the Group as at 30th September, 2001 was HK$200,732,000, a decrease of 13% over the latest year end date. The drop is mainly due to the provision for impairment loss of HK$11,241,000 in respect of certain of the Group's property interest as at 30th September, 2001 and the share of loss from Beijing Project amounting to HK$17,614,000. The net cash outflow from operating activities and returns on investments and servicing of finance during the period are HK$10,910,000 and HK$4,689,000 respectively; taking into account the amount of HK$18,519,000 repaid by the jointly controlled entity and other investment activities, the bank and cash balances increased by HK$8,013,000. The only bank indebtedness of the Group was the land and construction loan facilities in respect of the development of the Sheung Wan Project (in which the Group owns 60% interest and undertakes the borrowing risk in the same proportion). Since construction work has commenced, the construction loan amount will be going up gradually with a cap of HK$44,000,000. Taking into account the land loan of HK$150,000,000 already utilized, the total borrowings in respect of the Sheung Wan Project as at the period end was HK$160,166,000, which is denominated in Hong Kong dollars and is bearing interest with reference to the prime rate. The Group has obtained a conditional consent from the lending bank that the repayment date be extended to December 2002. With the anticipated falling trend in interest rates, the Group made no hedge for these floating prime rate based borrowings. The gearing ratio (the ratio of total liabilities over total assets) remains healthy at 47%, an increase of 4% over latest year end date.

Other than the finance lease contract for a motor vehicle which is on fixed interest rate basis, the Group has no other fixed interest borrowing at the period end date. The Group had limited exposure to foreign exchange rate fluctuation as most of the transactions, including borrowings, are conducted in Hong Kong dollars, United States dollars, Renminbi and to a lesser extent, Japanese Yen. Japanese Yen sales are mostly backed by Japanese purchases, so exchange risk is minimal taking into account the fact that the exchange rates of Hong Kong dollars and Renminbi are relatively stable as compared with that of United States dollars. Save as aforementioned, the Group had no other material foreign exchange commitment and risk.

Rewards for Employees

As at 30th September, 2001, the Group employed some 20 persons in Hong Kong and 50 persons in the PRC. The remuneration policy and package of the Group's employees are based on their performance, experience and prevailing industry practice. In addition, merit payments and the grant of share options to eligible employees are linked to individual performance. Employees are also provided with appropriate training for better personal development and growth.

Prospects

The Group's operating activities are still loss-making whilst the Sheung Wan project is at the construction stage, the Group will soon launch the Sheung Wan Project for sale so as to reduce its gearing and interest expenses. Moreover, the Board has taken measures to dispose of businesses with less controllable interest and intensive capital outlay and has strived to conserve cash resources so as to be able to sustain a prolonged period of slow economy in its major market. The Group will adopt a prudent approach in financial management and will employ existing resources effectively by seeking high return business opportunities with an aim to improving the overall performance of the Group in the coming years.