

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL RESULTS

Turnover of the Group for the first six months ended 30 September 2001 was HK\$238,000 representing approximately a 96.4% decrease as compared to that of the corresponding period in year 2000. Loss attributable to shareholders before share of losses of associates (after tax) for the six months ended 30 September 2001 amounted to HK\$27,003,000 as compared with a loss of HK\$25,502,000 for the corresponding period in year 2000. Share of losses of associates (after tax) for the six months ended 30 September 2001 amounted to HK\$152,269,000 as compared with a loss of HK\$292,403,000 for the corresponding period in year 2000.

## REVIEW OF OPERATIONS

The development project over certain plots of land in Jiangsu Province of the People's Republic of China (the "PRC") (the "PRC Land") has completed its planning and design stage. Upon the approvals from local authorities, the project will commence its phased construction stage by the end of this year.

Amid the pervasive pessimism in the stock markets in the region, the Group has reviewed its investment portfolio and has been prudent in measuring the portfolio's fair value by making a provision for the impairment in value of HK\$10,889,000.

During the first six months ended 30 June 2001, China Online (Bermuda) Limited ("China Online"), an associated company of the Group, has recorded a turnover of HK\$1,330,141,000 and a net loss attributable to shareholders of HK\$443,217,000. The ups and downs of the general economic condition and investment climate in Hong Kong and overseas has significantly affected operating and financial performance of the Group, in particular the performance of China Online's investment portfolio.

The Group has, through China Online, participated in the following businesses:-

- the mobile handset distribution business in Hong Kong. The operation was significantly affected by the sluggish consumer market condition and the unforeseen delay in the launching of suppliers' new products. Nevertheless, the operation management has managed to secure and add new products to enrich its product lines;

- the mobile handset and accessories distribution business in the major cities of the PRC and such operation has recorded a turnover of HK\$97,269,000 during the first six months of 2001;
- the intelligent building system integration operation in the major cities of the PRC; and
- as at 30 June 2001, China Online has a long term investment portfolio comprising 300,618,000 shares in Millennium Group Limited (“MGL”, an associate of China Online), 246,380,000 shares in Sun Hung Kai & Co. Limited (“SHK & Co”), and 71,848,000 shares in Takson Holdings Limited (“THL”), representing approximately 21.7%, 16.4% and 18.1% in the issued share capital of MGL, SHK & Co and THL respectively.

## LIQUIDITY AND FINANCING

The Group’s non-current assets comprised mainly of the PRC Land held for development of HK\$80 million and interest in associates of about HK\$388 million. These non-current assets were principally financed by shareholders’ funds and interest-bearing borrowings. As at 30 September 2001, the Group has net current liabilities of about HK\$20 million. Subsequent to the period end date, the Group has renewed one of the general loan facilities with an increased credit limit.

As at 30 September 2001, the Group’s outstanding borrowings amounted to approximately HK\$187 million, consisting of secured loan repayable on demand of about HK\$1 million, unsecured loan repayable within one year of HK\$19 million, and secured loan repayable in the second year of HK\$167 million.

The gearing ratio of the Group was approximately 59.0%, calculated on the basis of the Group’s net borrowings (after deducting cash and bank balances) over shareholders’ funds at the period end date.

The Group has little foreign exchange exposure and the Group’s borrowings were all denominated in Hong Kong dollars.

## CHARGE ON GROUP ASSETS

As at 30 September 2001, the general loan facilities of the Group were secured by 3,185,740,000 (or 34.31%) of issued ordinary shares in China Online held by the Group and corporate guarantees executed jointly and severally by certain subsidiaries of the Company. As mentioned in the Section - Liquidity and Financing above, subsequent to the period end date, the general loan facility was further secured by share mortgages of the shares of certain subsidiaries of the Company that are the beneficial owners of the PRC Land and was renewed with an increased credit limit.