

MANAGEMENT DISCUSSION AND ANALYSIS

Interim results

The Group's unaudited consolidated turnover for the six months ended 30 September 2001 was approximately HK\$77.6 million with a decrease of 21% as compared with the corresponding period in the previous year (2000: HK\$98.6 million). Loss attributable to shareholders was approximately HK\$33.74 million (2000: Profit of HK\$18.36 million). The loss mainly arose from an impairment loss of long term investments approximately HK\$28.5 million due to the drop of share prices in our investments in listed securities and amortization of investment in a joint venture in the sum of about HK\$34.2 million for National Highway 318.

Securities and Finance

During the period under review, the Hang Seng Index dropped by 22% and the GEM Index fell by 34.7% as the result of the tragic acts of terrorism in the United States and worldwide depression in the global economy. Due to the downturn of the stock market in Hong Kong, turnover of securities and finance business recorded a decrease by about 51% to HK\$12.8 million (2000: HK\$26.3 million) which accounted for approximately 16.5% of the group's total turnover (2000: 27%). Contribution to turnover of the Group was approximately HK\$17.2 million (2000: HK\$27.5 million) with a decrease of approximately 37% as compared with the corresponding period in the previous year, which represent a contribution to turnover ratio of 1.35 times (2000: 1.05 times).

The contribution to the Group's turnover from the securities business was approximately HK\$5.8 million (2000: HK\$5 million) with an increase of approximately 16% as compared with the corresponding period in the previous year because of more active participation in corporate financing market like acting as lead managers or co-managers in floatation projects, acting as underwriters for placements or rights issues and reduction in cost of the business.

The contribution to the Group's turnover from the finance business was about HK\$11.4 million (2000: HK\$22.5 million) with a decrease of approximately 49% as compared with the corresponding period in the previous year. Because of credit risk management to reduce our risk exposure, we are able to benefit by a reversal of provision for doubtful debts of HK\$10.3 million.

The Group has entered into partnership business with Financial Foster Group in Yugoslavia to carry on the securities and financial business in both Europe and Hong Kong.

Trading

Trading business accounted for approximately 83% (2000: 73%) of the Group's turnover and recorded a decrease of about 10.5% from that of the corresponding period in the previous year due to worldwide contraction of the garment market especially in the high-end cashmere products. Moreover, with the decrease in exchange rate of European currencies and the sharp drop in demand for high-end cashmere products, the contribution of this division to the Group's turnover decreased by approximately 31.4% to HK\$2.4 million (2000: HK\$3.5 million). The Group has put extra effort in cost control of this business.

Infrastructure

For the period under review, the investment in a section of Wuhan to Yichang of National Highway 318 in Hubei derived a dividend income of about HK\$20.4 million. Because the Group had to amortize the cost of the investment in the sum of about HK\$34.2 million and to pay interest expense for this project in the sum of approximately HK\$4.4 million, the recorded loss after minority interests of this project amounted to approximately HK\$9.6 million. The Group is negotiating with the PRC party to the joint venture and the relevant PRC government authority to extend the term of the joint venture.

Investments

The Group had adopted a strategy to diversify investments into different potential industries, including the high technology industry, retail and wholesale of consumer products in Hong Kong, the provision of transportation and logistics service in the PRC, beverage manufacturing, highway infrastructure projects in PRC, further expansion and development in corporate finance market and strategic investments in potential businesses. Shares of one of the Group's investments, Rainbow International Holdings Limited, was successfully listed on the Stock Exchange in October 2001. Shares of associated company of the Group, Inworld Group Limited, are expected to be listed by the end of December 2001 on the Stock Exchange. Several of the Group's investments have also applied for listing and/ or are undergoing preparation for listing. The Group has acquired an associate during the period under review. The Group had also disposed 30% shareholding of a subsidiary resulting in a gain on disposal of HK\$13 million, in order to enhance the investment in the internet business in PRC.

Liquidity and financial resources

As at 30 September 2001, the Group had cash and bank balances of approximately HK\$111.6 million (2000: HK\$156.9 million) and outstanding bank loans and other borrowings of approximately HK\$179.9 million (31 March 2001: HK\$189.8 million). As at 30 September 2001, the gearing ratio was about 0.28 (31 March 2001 was 0.28). This was calculated based on the Group's total interest bearing loans of approximately HK\$180.3 million (31 March 2001: HK\$190.3 million) to shareholders' fund of approximately HK\$650.3 million (31 March 2001: HK\$678.5 million). The Group's borrowings were primarily denominated in Hong Kong dollars and Reminbi for which facilities the Group has pledged certain assets. The Group also successfully completed a Rights Issue in November 2001 and raised a net proceeds of approximately HK\$27 million which will reduce the outstanding borrowings and increase the net asset backing of the Group.

Prospect

PRC's accession to the World Trade Organization offers grounds for optimism and unprecedented opportunities for the Group's businesses in Mainland China. Barring unforeseen circumstances, our efforts made in the past will enable us to strengthen our competitiveness to meet future challenges.

Staff

As at 30 September 2001, the Group had 78 employees. Remuneration packages are generally structured with reference to prevailing market practice and individual merits. Salaries are reviewed annually based on performance appraisal and other relevant factors. Staff benefit plans maintained by the Group include medical insurance, hospitalization scheme, mandatory provident fund and share option scheme.