

## MANAGEMENT DISCUSSION AND ANALYSIS

During the period under review, the Hong Kong economy remained weak despite a series of interest rate cuts. With the unemployment remaining high, the interest rate reductions have not been able to trigger a rebound in public spending.

### Business Review

The Group recorded a turnover of HK\$35,475,000 for the six months ended September 30, 2001 representing an increase of 30.4% from HK\$27,201,000 for the previous corresponding period. The increase in turnover was mainly attributable to the credit card business, which was acquired by the Group in April, 2000. The contribution of the credit card operations to the Group's turnover amounted to HK\$29,111,000 or 82.1% of the total turnover of the Group. The increase was, however, partially offset by the poor performance of the Group's retail fashion business and lower income from treasury investment and securities trading and investment.

During the period, the Group recorded an operating profit of HK\$6,405,000 (2000: loss of HK\$12,025,000). The positive change in operating results was mainly attributable to the following factors:

- (1) Revenue from the Group's credit card business was growing steadily;
- (2) The Group has further tightened its internal cost control and management in an effort to raise the level of profit attributable to shareholders; and
- (3) Reversal of impairment loss on investments in securities.

During the period under review, the Company recorded a gain on deemed disposal of a subsidiary of HK\$14,937,000. On the other hand, due to the unexpectedly pronounced general slowdown in the global economy coupled with the impact of the terrorist attacks in the United States in September 2001, which have adversely affected the securities market in the United States, the Group recorded impairment loss in respect of goodwill of HK\$28,898,000 arising from acquisition of a principal associate which is operating in the United States.

The loss attributable to shareholders for the six months ended September 30, 2001 was HK\$11,754,000 (2000: HK\$19,044,000) and the loss per share was 0.93 cent (2000: 1.5 cent).

### Liquidity and Capital Management

The Group monitors its liquidity position as part of its ongoing assets and liabilities management. The balance between liquidity and profitability is carefully considered.

During the period under review, through a placing exercise of a subsidiary of the Company, Hai Xia in August 2001, Hai Xia placed out 30,000,000 new ordinary shares at HK\$0.60 per share to an independent subscriber and raised net proceeds of approximately HK\$17,500,000. This fund raising exercise enabled the Group to strengthen its financial position and to allocate more resources for the expansion of the financial services division of the Group.

As at September 30, 2001, the Group's current ratio was 2.64 (3.31.2001: 2.19) and the gearing of the Group was 1.8% (3.31.2001: 2.1%), which was calculated based on the total borrowings of HK\$4,607,000 and the shareholders' fund of HK\$249,322,000. Bank and cash balance amounted to HK\$40,229,000 (3.31.2001: 24,412,000).

### **Future Plans for Material Investments**

During the period under review, Online Credit Limited (“Online Credit”), a subsidiary of the Company, entered into an Agreement with eVision USA.Com, Inc. (“eVision”), an associated company of the Group, relating to the acquisition of the interests in eBanker USA.Com Inc. (“eBanker”), Global Growth Inc. (“Global Growth”) and Global Med Technologies, Inc. (“Global Med”). The aggregate consideration of US\$7,314,316 will be satisfied by reducing the outstanding amount of the convertible debenture issued by eVision to the Company by an equivalent amount. On October 24, 2001, Online Credit entered into a further agreement with eVision to extend the effective time of completion of the Agreement from October 24, 2001 for a further 90 days to on or before January 22, 2002. Details of the Agreement have been set out in a circular of the Company dated June 30, 2001 issued to the shareholders.

On November 22, 2001, Hai Xia entered into a conditional agreement in relation to the Securities Exchange (the “Agreement”) with Greater China Sci-Tech Holdings Limited (“Greater China”), the ordinary shares of which are listed on The Stock Exchange of Hong Kong Limited. Pursuant to the Agreement, Hai Xia has agreed to subscribe for Greater China’s New Shares at a price of HK\$0.10 each in consideration for the issue of Hai Xia’s New Shares at HK\$0.60 each. Upon completion of the Agreement, Hai Xia will effectively hold 11.9% of ordinary share capital of Greater China and Greater China will effectively hold 21.6% of ordinary share capital of Hai Xia.

### **Foreign Exchange Exposure**

Substantially all the revenues, expenses, assets and liabilities are denominated in Hong Kong dollars. The Group’s cash deposits and bank balances are mainly in either Hong Kong Dollars or United States Dollars. During the same period, the Group neither engaged in any derivative activities nor committed to any financial instruments to hedge its balance sheet exposures.

### **Credit Risk Management**

The Group’s credit policy defines the credit extension criteria, the credit approval and monitoring processes, and the loan provisioning policy. The Group maintains a tight control on loan assessments and approvals and will continue to exercise a conservative and prudent policy in granting loans in order to maintain a quality loan portfolio and reduces the credit risk exposure of the Group.

### **Human resources**

The Group continues to recognize and reward its human resources in a similar manner to that disclosed in the Company’s 2001 Annual Report. As at September 30, 2001, the Group has a relatively stable staff force of over 70 people.

### **Prospects**

Pertaining to credit card operation, the Group will focus its marketing efforts to offer a core product line consisting of technology financing, personal credit cards, premium service credit cards, secured credit cards and customized corporate financing.

In view of the recession in Hong Kong’s economy and the rising level of bankruptcies, the Group will perform analysis on its own customer database, in particular on customer profiles, and spending and payment patterns to strengthen credit control. We will closely monitor the operation of the business of the Group while at the same time cautiously expand our business of corporate lending.

We consider that the acquisition of eBanker, Global Growth and Global Med will enable the Group to restructure its assets and consolidate the financial services businesses into the Company. In addition, the Securities Exchange between Hai Xia and Greater China serves to facilitate the exploration of business opportunities between the two groups with a focus in the cross strait business sector.

**Contingent liabilities**

As at September 30, 2001, the Company gave corporate guarantees of HK\$Nil (3.31.2001: HK\$3,884,000) to a financial institution in respect of banking facilities granted to subsidiaries.

Other than the above and those already reported in the Company's 2001 Annual Report, there were no material changes in the Group's contingent liabilities.