

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review and Outlook

For the six months ended 30th June, 2001, market sentiment remained sluggish, creating a very tough period for the Group. Turnover for the Group decreased 53%, compared to the same period last year, reaching HK\$23,802,000. Net loss attributable to shareholders was HK\$29,485,000. Profits for the same period last year included the disposal of the Group's investment in founders' shares in a listed company in the PRC. Among the Group's prospects, the toll bridge in Zhangjiakow maintains its role as a recurring source of revenue for the Group, enhancing its financial position.

During the period under review, the Group continued to focus its business strategies on its core businesses, namely property development, information technology, education information technology and infrastructure investments.

With China's entry into the World Trade Organization, the property market is flourishing. The Group believes that there is enormous potential for development in the property market in the PRC. The Group is currently paving the way for its future property development and is looking for potential investors to join in the project. These activities are expected to contribute significant profits to the Group.

Although the technology market has been highly volatile in recent years, there is still enormous room for development in this sector. However, in view of the sudden downturns being experienced by many IT companies, the Group has taken a conservative approach and made a number of provisions for some of its IT investments for the financial year ended 31st December, 2000. Nonetheless, the Group will leverage its management experience and resources to nourish those IT investments which have potential growth once the market turns around. It has always been the Group's strategy to invest in companies with a proven track record and established customer base. The Group's investment in Beijing Zotn Digital Technology Inc. is a leading example of this investment strategy.

In view of rising education standards in the PRC, the development of education information systems employing high-end technology has become a group priority since 2001. The Group is developing a digital platform, [www.bjbb.com](http://www.bjbb.com), with its strategic partner, Beijing Xin Hua Book Co. Ltd, a well-known company in the PRC. This platform will allow customers both in the Greater China Region and the global Chinese community to purchase books and education related accessories, such as computer software online. The Group is also considering the opening of retail stores in high population density areas which could open another source of revenue for the Group in the future. Combining the synergy and leveraging the advantages and competitiveness of [tinyschool.com.hk](http://tinyschool.com.hk) and Lawsons Infotech (Holdings) Corp., with their strong networking and logistic arrangement capabilities, the Group has every confidence in its investment strategies which are expected to bring in significant profits for the Group. Looking ahead, the Group continues to identify new investment opportunities with high growth potential which will maximize investment returns.

### **Assets and Liabilities**

The Group acquired two associates during the current period with the allotment and issue of 325,000,000 ordinary shares of HK\$0.1 each of the Company at a consideration of HK\$0.2 per share. Except for the above, there was no significant change in the assets of the Group during the first half of 2001.

As at 30th June, 2001, the Group still had total liabilities of about HK\$263,265,000, of which HK\$36,682,000 are bank and other loans repayable within one year and HK\$49,036,000 are bank loans repayable after one year. The Group settled bank loans of HK\$19,914,000 and obtained new bank loans of HK\$3,743,000 during the current period.

The Group's assets/liabilities ratio is calculated on its total liabilities divided by total tangible assets. As at 30th June, 2001, the Group's assets/liabilities ratio was 44%, a slight increase over the figure of 43.5% at the end of last year.

## **Liquidity and Financial Resources**

The Group is financed by both internal financial resources and facilities from third parties. All bank loans as at 30th June, 2001 were denominated in Reminbi and are at market interest rates. As at 30th June, 2001, the Group had available aggregate banking facilities of HK\$70,030,000 of which HK\$5,614,800 has not been utilized. Similar to last year, other loans included an unsecured loan from a third party of HK\$20,000,000 which bears interest at 24% per annum.

As at 30th June, 2001, certain assets of the Group with aggregate carrying values of HK\$28,356,000 and HK\$198,000,000 have been pledged to secure banking facilities granted to the Group and an independent third party, respectively. Certain furniture and equipment with a carrying value as at 30th June, 2001 of HK\$32,562,000 have been pledged to secure other loans granted to the Group.

## **Exchange Risk**

As the Group's operations are principally in the PRC and all assets and liabilities are denominated either in Reminbi, HK dollars or US dollars, the Directors believe that the operations of the Group are not subject to significant exchange risk.

## **Human Resources**

Employee remuneration is in accordance with the nature of their duties and remained competitive under current market trends.