

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend.

REVIEW OF OPERATIONS FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2001

For the six months ended 30th September 2001, the total turnover of the Group was HK\$102 million (2000: HK\$112 million) and the interim consolidated loss attributable to shareholders was HK\$1,123 million (2000: profit of HK\$2.8 million). The loss of HK\$1,123 million for the current period was significantly affected by the provision for the Heat Supply Project of HK\$429 million, CNCC Acquisition of HK\$233 million, Accounts Receivable due from Sharp Class International Limited of HK\$358 million and deficit on revaluation of investment properties of HK\$27 million.

With the current economic situation and environment, the Group has adopted a conservative and prudent approach in reviewing and scrutinizing the operations of the Group.

The Group has to adopt this precautionary approach after the Company was served with a winding up petition ("Petition") by New Era Foundation (China) Limited ("New Era") on 27th November 2001 in relation to an outstanding loan with a principal amount of HK\$25 million. On 31st January 2002, the Company has reached a settlement in respect of the Petition and on 6th February 2002, the High Court of Hong Kong has ordered the Petition be dismissed.

The Board has conducted a thorough review of its cash position after receiving the Petition from New Era and discovered that the Group has received HK\$323 million from 18th to 20th July 2001 from two independent parties and at the same time made payment of a total sum of HK\$358 million to Sharp Class on 19th and 20th July 2001. The Group was unable to pay the interest on the loan of HK\$25 million due to New Era on time and yet was able to make payment of HK\$358 million to Sharp Class without satisfactory documents and adequate securities to substantiate payment of this magnitude. The Board noted the six extensions for the CNCC Acquisition and requested signed supplemental agreements for the extensions and was told that besides the first extension, only verbal agreements were obtained from CNCC for the remaining five extensions.

DTCF submitted its limited review report dated 5th August 2002 on CNCC Acquisition and Accounts Receivable to the Company. The Company has on 7th September 2002 served a writ of summons to Sharp Class and Mr. Lo Chu Kong for recovery of HK\$308,444,772. The Board has instructed its legal advisers to commence legal actions against the related parties for the recovery of earnest money of HK\$200 million and the payment of HK\$13 million to Epoch Development Holdings Limited and HK\$50 million due from Sharp Class.

Trading Division

P & G consumer products division faced stiff and keen competition in 2001. With the significant erosion of its contribution margin, this division has ceased its operation since October 2001. The net loss for this division for the first six months was HK\$480,000.

The Group has agreed in principle with PUMA AG Rudolf Dassler Sport to settle the dispute as disclosed in the Company's announcement in the Hong Kong iMail and Hong Kong Economic Times dated 16th May 2002, please refer to the same for details.

Property Investment

During April 2002 to July 2002, the Group completed the sale of four properties including (1) Units 1008-1010, Harbour Crystal Centre, 100 Granville Road, Tsimshatsui East, Kowloon, Hong Kong, (2) Unit No. 302 East Ocean Centre, 98 Granville Road, Tsimshatsui East, Kowloon, Hong Kong, (3) Car Park Space Nos. 11, 12, 34, 40, 41, 42, 43, 44 & 45 on Basement Floor, Peninsula Centre, 67 Mody Road, Tsimshatsui East, Kowloon, Hong Kong and (4) Upper Ground and Service Floors, 2nd to 6th Floors and the Roof of Kwai Chung Car Park and Shopping Centre for the amounts of HK\$4,972,500, HK\$10,000,000, HK\$2,430,000 and HK\$70,500,000 respectively and the sales proceeds were mainly used to settle secured bank loans and as the Group's general working capital. The loss on disposal of the four properties was approximately HK\$66.1 million.

The rental income from the property investment division for the first half of 2001 was HK\$9 million, a decrease of about 15% when compared with the corresponding period of last financial year. With the increase in operating cost, the contribution will keep on decreasing.

The property project in Panyu, Guangdong, PRC, known as "Panyu Times Place" was owned by Panyu Lucky Rich Real-Estates Development Limited ("Panyu Lucky"). Nardu Co. Limited, 47.5% owned by the Group as at 30th September 2001, owns 100% of Panyu Lucky. Tat Yeung Investments Limited, which was then 50% owned by the Group, made a loan together with interest totalling about HK\$84,000,000 (Principal of US\$7,582,321.48 and HK\$8,626,260.30 and interest of US\$1,867,599.58 and HK\$2,154,837.74) to Panyu Lucky. The Board has been unable to obtain satisfactory documentation in accordance with PRC laws, it is understood any foreign loan and interest charged should be approved by the relevant authorities in order that repayment overseas can be subsequently made.

The Board will vigorously pursue the formal legalisation of this loan and interest charged.

Investment Holding

Due to the severe problems experienced by the Group, the Board was unable to continuously monitor the Waterfront Project in Panyu, PRC and is currently unable to provide appropriate funding to ensure its completion.

Shanghai East Ocean Centre Phase II

Shanghai East Ocean Centre Phase II ("Shanghai East") is 100% owned by Shanghai Xing Tai Real Estate Development Incorporation Limited ("Xing Tai"). Goodwill (Overseas) Limited ("Goodwill"), 32% owned by Price Sales Limited, a wholly owned subsidiary of the Group, has lent HK\$642,000,000 to a company called Kingdom Land Investment & Development Limited ("Kingdom Land"), a company incorporated in the Macau Special Administrative Region. Kingdom Land has 95% interest in Xing Tai. The directors are currently unable to locate any written confirmation from Kingdom Land acknowledging the loan of HK\$642,000,000. The Board will vigorously pursue this matter to protect the interest of the Group.

Due to sentiments brought by PRC's entry into the World Trade Organisation, the property market in Shanghai has increased marginally. However, with the completion of the property development projects in the surrounding areas, Shanghai East is facing stiff competition. The Board does not expect any significant increase in contribution from the project for the second half of the current financial year. The current monthly rental income from this investment is about HK\$620,000.

e-Commerce

With the drastic change in consumer response to online business, our online bookstore www.ebookschina.com is not well received contrary to our expectation; the Board has decided to cease operation of e-Commerce. The total investment in e-Commerce was HK\$109 million, which was written off in the financial year ended 31st March 2000.

Electronic Distribution Network ("eDN")

China-eDN.com Limited ("China-eDN") has completed its B2B e-Commerce system to cater for the Puma consumer products. The original plan for China-eDN was to provide services to the CNCC Acquisition. However, with the termination of the CNCC Acquisition and the cessation of P & G business, the division has come to a total standstill. In addition, China-eDN, a 70% subsidiary of the Company, is subject to various litigations with a total claim amount of approximately HK\$2.5 million.

The Group through its wholly owned subsidiary, Fenugreek International Limited, on 27th April 2000 acquired 70% of China-eDN (formerly known as Top Victory (Asia) Limited) for a total consideration of HK\$306.6 million from Diagonal Trading Limited, a company incorporated in the British Virgin Islands. The principal business activity of China-eDN is to establish an electronic distribution network for the logistics and distribution of consumer products in the PRC. Total consideration for the acquisition of interest in China-eDN is HK\$306.6 million satisfied by the issuance of the mandatory convertible note by the Company.

Dispute in Pan Pacific Traders Limited

The Company has been informed on 28th May 2002 that ABN AMRO Bank N.V. Hong Kong Branch ("Bank"), as mortgagee, had entered into two agreements on 24th May 2002 and 27th May 2002 with two independent parties for the sale of 413,000,000 and 95,201,500 shares of the Company, representing in aggregate approximately 34.68% of the issued share capital of the Company.

The Company has been informed on 2nd September 2002 that a termination agreement was executed on 30th August 2002 to terminate the agreements for the sale and purchase of shares in the Company made between the Bank and Pacific Will Holdings Limited and Run Fung International Limited dated 27th May 2002 and 24th May 2002 respectively.

Pan Pacific Traders Limited is the controlling shareholder of the Company, which owns 512,663,500 shares, 508,201,500 shares of which are pledged to the Bank. The Company has received a letter dated 26th July 2002 from the solicitor representing China Huatong claiming that China Huatong is the ultimate beneficial owner of the shares held by Pan Pacific Traders Limited, inclusive of the shares being sold by the Bank as mortgagee.

Mandatory Convertible Note

The Company has received notification from the solicitors of Huatong Group Holdings Limited ("Huatong") on 23rd April 2002 that the beneficial ownership of the noteholder is subject to dispute and has demanded in writing on 26th April 2002 that the Company to withhold allotting and issuing the conversion shares to the noteholder, failing which they would hold the Company responsible for their loss and damages. The noteholder has on 29th April 2002 instructed the Company to allot and issue the conversion shares to a third party. The Company has withheld the allotment and issuance of the conversion shares pending resolution of the dispute. As far as the Company is aware, no action has been brought regarding the beneficial ownership of the noteholder.

Resignation of Chairman, Mr. Yuen Wai

Mr. Yuen Wai resigned as the Chairman of the Company with effect from 28th May 2002 being four days after the Bank entered into the sale and purchase agreements to sell the mortgaged shares of the Company. With the sudden departure of Mr. Yuen Wai, the current board members are facing great difficulties in getting explanations and making contacts relating to the Heat Supply Project, the CNCC Acquisition and the Accounts Receivable due from Sharp Class.

The Company commenced legal proceedings on 10th August 2002 against Mr. Chung Ho and Mr. Wu Yuehua and three other directors appointed at a purported board meeting held on 4th August 2002 ("Purported Board Meeting") seeking to, amongst others, invalidate the resolutions passed at that meeting. On 13th August 2002, the three directors purportedly appointed at the board meeting on 4th August 2002 tendered their resignations as directors. The Company maintains that the directors appointed at the Purported Board Meeting had not been validly appointed and intends to pursue Mr. Chung Ho and Mr. Wu Yuehua in relation to damages caused to the Company arising from the Purported Board Meeting.

Trading in the Company's shares has been suspended since 28th May 2002 pending the release of price sensitive information.

Prospects

In view of the tremendous problems facing the Group, coupled with the discovery of unusual business transactions such as Heat Supply Project, the CNCC Acquisition and the accounts receivable due from Sharp Class, the Board has, for the time being, diverted its full attention to the resolution of these problems.

Until these problems have been resolved satisfactorily, the Board is not in a position to fully plan and implement the future business plan for the Group.

The future outcomes of the investigations and recovery action resulting from the legal actions taken by the Group in respect of the Heat Supply Project of HK\$429 million, CNCC Acquisition of HK\$233 million and the accounts receivable due from Sharp Class of HK\$358 million, may result in assets being recovered by the Group which will improve the cash position of the Group, this is by no means certain at this time.

In the meantime, the Board is resolved to do everything it can to ensure that the Group is able to continue to function, albeit at a substantially reduced level of operation for the short to medium term.

Liquidity and Capital Resources

As at 30th September 2001, the Group had current assets and current liabilities of HK\$112 million and HK\$271 million respectively (31st March 2001: HK\$716 million and HK\$263 million, respectively). The Group had cash and bank balances (including pledged bank deposits) amounting to approximately HK\$6 million as at 30th September 2001 (31st March 2001: approximately HK\$14 million).

The Group had in aggregate HK\$127 million (31st March 2001: HK\$129 million) bank borrowings secured on certain properties owned by the Group. As at 30th September, 2001, the Group's gearing ratio was 45% (31st March, 2001: 9%).

The Company has not issued any additional shares during the period from 1st April, 2001 to 30th September, 2001 except that Mr. Yuen Wai who was the Company's director during the period under review exercised options for 6,500,000 shares at the subscription price of HK\$0.1491 under the Company's share option scheme.

Treasury policies

The business activities of the Group were funded by bank borrowings, secured loans and cash generated from operating activities. The Group considers that fluctuations in exchange rates and market prices do not impose a significant risk to the Group since the level of foreign currency exposure is relatively immaterial as compared with its total assets value or outstanding debts.

EMPLOYEES

As at 30th September 2001, the Group employed a total of about 110 employees, of which 60 were based in Hong Kong and 50 in the PRC. Employees' remunerations are determined in accordance with nature of their duties and remain competitive under current market trend. During the period under review, no option has been granted pursuant to the Company's employee share option scheme.