

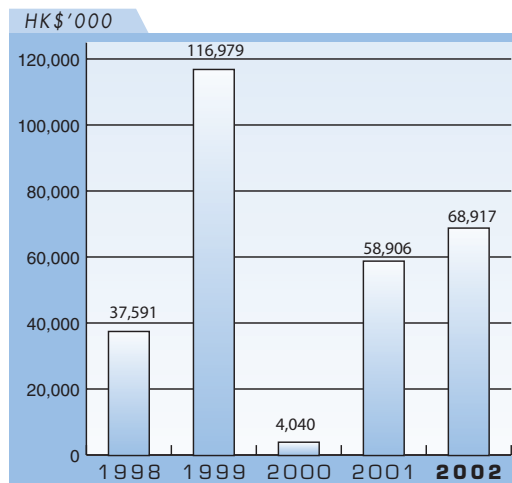


## MANAGEMENT DISCUSSION AND ANALYSIS

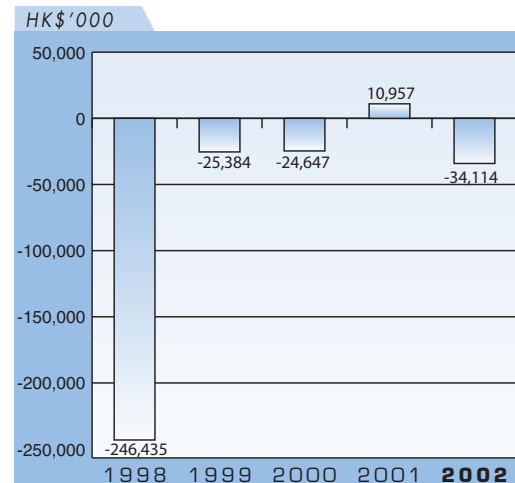
### RESULTS

Turnover of the Group for the six months ended 30 June 2002 was HK\$68,917,000, representing an increase of 17% when compared with HK\$58,906,000 recorded in the corresponding period of 2001. During the period under review, loss from operating activities and net loss from ordinary activities attributable to shareholders of the Group were HK\$34,178,000 and HK\$34,114,000 respectively.

#### Turnover



#### Net profit/(loss) from ordinary activities attributable to shareholders



The Group issued a 2 years' non-interest bearing non-redeemable convertible notes with a principal amount of HK\$100,467,290 for the acquisition of Dawning, which will expire on 3 June 2003 and has been reclassified under current liabilities as at 30 June 2002 accordingly. As a result, the Group has no other long term borrowings as at 30 June 2002. During the period, deposits of HK\$11,000,000 of the Group were pledged to secure general banking facilities. As at 30 June 2002, bank loans amounted to HK\$9,429,000 approximately (as at 31 December 2001: nil) and all of them were denominated in Renminbi. The Group's gearing ratio (total borrowings divided by shareholders' equity) maintained at a level as low as 0.2 as at 30 June 2002 (as at 31 December 2001: 0.17). As at 30 June 2002, cash in hand amounted to approximately HK\$146,569,000 (as at 31 December 2001: HK\$213,807,000). In addition, the financial position of the Group was healthy and it was not exposed to material risks arising from fluctuating exchange rates. Except for potential obligations and guarantee of approximately HK\$23,679,000 (as at 31 December 2001: HK\$29,646,000) arising from the disposal of certain units in La Residence and guarantee for impairment or losses incurred by the ophthalmology treatment business managed by the Group, the Group had no material contingent liability as at 30 June 2002 and 31 December 2001.



## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### RESULTS (Continued)

During the period under review, the total number of staff and structure of the Group remained the same substantially. In order to comply with the requirements of Listing Rules, the Group terminated the former share option scheme and adopted a new share option scheme at a general meeting held on 30 May 2002. Nevertheless, options granted under the former share option scheme remain in force and exercisable.

### BUSINESS REVIEW

#### **Dawning**

During the period under review, confidence of individual consumer as well as the investment and development plans of corporations were hampered by the continuously depressed global economy. Under such unfavorable economic conditions, corporations in various industries were confronted with severe challenges and Dawning was no exception. The deteriorating business environment brought about keen competition in the server market. With the impact of the global economy, a number of foreign manufacturers intensified their participation in the China market. On the other hand, with the increasingly feasibility of access to capital markets, domestic and foreign manufacturers were able to enhance their competitiveness in price wars so as to secure market positions of their own. As a result, the price of servers kept on going down, undermining the profit margin of manufacturers. Despite the increase in sales volume of Dawning over the corresponding period of 2001, the profit margin decreased. All these factors contributed to the loss incurred by Dawning for the period.

Dawning has been involved in the construction of Dawning Tower in Shenzhen High-tech Park, which was completed on 2 August 2002 and will be ready for occupation in October 2002. A specialized team appointed by the Group is responsible for co-ordinating and implementing the property management function, to provide comprehensive management service for the whole building.

Dawning established Shenzhen Dawning Digital Technology Co., Ltd. during the period, holding a 95% shareholding interest, the company was mainly engaged in sales of Dawning servers and various digital technological products.

#### **Jingke Electronic and Jingke Information**

In August 2001, the Group acquired a 51% shareholding interest in Wuhan Jingke Electronic Co., Ltd. ("Jingke Electronic") and invested in Wuhan Jingke Information Industry Co., Ltd. ("Jingke Information"). The Group has injected cash of HK\$13,585,000 approximately in Jingke Information and held a 51% shareholding interest of it. Jingke Electronic and Jingke Information have been mainly engaged in manufacturing quartz oscillators used in the production of various electronic products (semi-finished products), resonators (finished products), SMD and related devices.



## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### BUSINESS REVIEW (Continued)

In order to upgrade economies of scale by expanding the productivity, Jingke Information invested in the construction of Jingke Industrial Park in the Taiwan Investment Zone in Wuhan. The construction of Jingke Industrial Park has proceeded smoothly and the whole park will be fully completed and put into operation by the end of 2002.

#### **Beijing CPT**

The Group completed the acquisition of a 55% shareholding interest in Beijing CPT Bluetus Co., Ltd. ("Beijing CPT") in March 2002. Beijing CPT has been mainly engaged in the development of network storage systems for corporate usage and the provision of professional technical advice, program designing and structural planning for finance, telecommunications, media, government and education sectors on the basis of a broadband operating multimedia content service platform system. Through cooperation with Dawning and other major system integrators, Beijing CPT has accumulated extensive experience in networks and the broadband multimedia application platform. Beijing CPT is the regional sole distributor in northern China for XIOTECH of BossSeagate, a well-known storage products manufacturer, for the full range products of its high-end storage system and the industrial sole distributor for the television & broadcasting sector and education sector in China, excluding Taiwan and Macau. Beijing CPT is also an authorized value-added reseller of Pinnacle, a famous leading US multimedia corporation, in the PRC in respect of its high definition non-linear editing system including Cinewave products and options.

#### **China Vision**

China Vision Development (Shenzhen) Co., Ltd. ("China Vision") worked smoothly together with several major competitors in the PRC, including Zhongshan Ophthalmology Center of Zhongshan University in Guangzhou, Shenzhen Kejian Medical Electronics Equipment Investment Co., Ltd., Eye Hospital at Wenzhou Medical College/Optomety Research Center of Ministry of Health, PRC, Kam Lik Investments Ltd., as promoters to restructure China Vision as a joint stock limited company. With the introduction of these promoters, China Vision will be converted from a wholly owned subsidiary to an associate of the Group by the end of 2002. Upon the completion of restructuring, China Vision will control the largest ophthalmology medical network in China comprising tens of ophthalmology treatment and spectacles centers throughout various major cities in the PRC and "華明" will be developed as a well known brand name in China ophthalmology accordingly. Therefore, China Vision will be able to enlarge its market share and business promotion will be more efficient.

#### **Property**

The performance of the non-core property division held by the Group has been stable. Since the occupation rate of service apartments for lease in La Residence operated by the Group was over 85%, more apartments were available for leasing and rentals were higher, rental income recorded a substantial growth during the period.



## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### BUSINESS REVIEW (Continued)

#### Financial Services

During the period under review, the Group's other non-core financial services division was inactive. However, limited business was still retained for the sake of funds security and generated certain cash income.

### PROSPECTS

#### Dawning

With traces of recovery for the global economy, confidence for individual spending and corporate investment is stronger. It is expected that operating conditions will be better in the second half of 2002. Meanwhile, Dawning has focused on marketing, brand name promotion, product research and development and excellent results have been achieved, evidencing its high potential for development. During the first half of 2002, the market share increased to 5.9%, representing a third ranking amongst domestic manufacturers. As a result, the position of the third largest brand name of servers in the PRC was further enhanced. Progress in exploring new market channels has brought about a substantial increase in sales volume. Dawning also promoted its products in various sectors, including meteorology, petroleum, education, government and etc. Product research and development has been tailor-made to customer applications, thereby generating a number of new products. In order to promote brand name popularity and increase sales volume, product roadshows are scheduled to be held in various major cities in China in the last quarter of 2002.

In addition, Dawning will implement further pragmatic cost cutting measures to improve its operating efficiency and product quality so as to enhance its competitiveness and achieve promising results as expected.

Dawning Tower has been mainly earmarked to house the Group's research and development center and representative office in Shenzhen as well as offices of its subsidiaries. Basically, all office space available for leasing in Dawning Tower has been occupied. Tenants are all major corporations, including the Shenzhen Telecommunication Bureau. It is expected that stable rental income will be contributed to the Group.

#### Jingke Information

Jingke Information will complete the following tasks by the end of 2002: the construction of the whole Jingke Industrial Park, the deployment and adjustment of product mix and the co-ordination and modification of production lines.

With the completion and operation of Jingke Industrial Park and the introduction of major and new production equipment, the productivity, technical level and production environment of Jingke Information will be improved significantly. It is expected that turnover and profits of Jingke Information will be increased.



## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### PROSPECTS (Continued)

#### Beijing CPT

The long-term test on the efficiency of broadband application platform and service system developed by Beijing CPT has provided promising results, and the clarity is comparable to DVD. The system is now a part of tests on the digital broadcast system of Beijing Gehua Group and will be duly introduced in the market of Beijing in the near future, upon which audience will be able to enjoy various quality information services, including watching domestic and foreign movies, through broadband networks. Substantial turnover and profits are therefore expected.

#### Property

In order to concentrate all resources on profit making high-tech core divisions, the Group will keep on identifying appropriate opportunities to realize its properties at reasonable market price.

The Group will adhere to its established development policy of identifying feasible projects with high potential within the immense information industry to enlarge its income sources and provide the best return to its shareholders.

### DIRECTORS' INTERESTS IN SECURITIES

The directors' interests in the share options of the Company are disclosed in the section "Directors' Rights to Acquire Shares or Debentures" and "Share Option Schemes" below. Save as disclosed in those sections, as at 30 June 2002, none of the Company's directors or chief executives or their associates had any personal, family, corporate or other interest in the securities of the Company or any of its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the register required to be kept pursuant to Section 29 of the SDI Ordinance.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section "Share Option Schemes" below, at no time during the period under review was the Company, or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Company's directors or chief executive or their respective spouses or children under 18 years of age or their associates to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.