

15 Comparative figures

Certain of the 2002 comparative figures have been reclassified to conform to the current period's presentation.

16 Audit committee

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited condensed financial statements for the six months ended 30th June 2003 with the Directors.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30th June 2003 (2002: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

12

Business Review

Overview

Compared with the corresponding period last year, the Group's turnover for the six months ended 30th June 2003 increased by 90% to HK\$10,392,000 while gross profit decreased by 57% to approximately HK\$1,795,000. The rise in turnover was a result of the resumption of operation of the sale of automobile axles business. The turnover for sale of automobile axles was HK\$7,939,000, representing 76.4% of total turnover of the Group during the period under review. Since the gross profit on sales of automobile axles was much lower than that on the operation of games centers business, the other core business of the Group, which resulting in the decrease of gross profit even though there was significant increase in total turnover. The Group has recorded an unaudited loss attributable to shareholders of HK\$23,079,000 for the six months ended 30th June 2003. The decrease in loss was mainly attributable to the success in cost saving.

(a) *Games center*

During the period under review, the Group continued to operate four indoor family entertainment games centers in the People's Republic of China (the "PRC"). The outbreak of the Severe Acute Respiratory Syndrome in the PRC, resulted in a decrease in turnover by 55% to about HK\$2.5 million. The Board is of the view that this business will remain lack luster in the foreseeable future, the Group is not expected to make further commitment to this business.

(b) *Automobile axles*

The sino-foreign joint venture (the "JV") established in the PRC, Shenyang Liao Hua Automobile Axles Company Ltd., which is owned as to 51% by the Company and primarily engaged in the business of manufacturing and selling of automobile axles in the PRC, suspended production in 2000 and resumed its operation in October 2002. During the period under review, it achieved turnover of about HK\$7.9 million. The Group has taken steps to utilize JV's internal resources to advance its production lines with a view to improving the quality of its products and making them more competitive and attractive to potential customers in the market.

13

There was no significant investment unrelated to the mentioned core business of the Group during the period under review.

Liquidity and Financial Resources

The Group's liquidity and financial resources remained strong. The Group had cash and bank balances of approximately HK\$94.7 million and without any loan liability. Accordingly, the gearing ratio is zero, calculated on the basis of the Group's borrowing over shareholders' fund.

Human Resource

The Group had a total of approximately 140 employees at 30th June 2003. It has been the Group's policy to ensure that the pay levels of its employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system. The group has participated in a mandatory provident fund scheme for its employees based in Hong Kong. Shares options may also be granted to eligible persons of the Group. At 30th June 2003, there were outstanding share options of 56,570,000 which were granted under the share option scheme of the Company adopted on 15th March 1995 ("1995 Scheme"). The Group adopted a new share option Scheme ("2003 Scheme") to replace the 1995 Scheme on 12th June 2003. No further options can be granted under the 1995 Scheme, though share options granted under the 1995 Scheme which are not yet revoked or lapsed are still exercisable. The purpose of 2003 scheme is to provide incentives to participants to contribute to the success of the Group and to enable it to recruit and retain good quality employees in the long run. No share option had been granted under the 2003 Scheme since its adoption.

14

Charges on Group Assets

As at 30th June 2003, the Group had aggregate banking facilities of HK\$500,000, all of them remained unutilized. The facilities are secured by certificates of deposit of HK\$1 million. There was no other material charges on group assets.

Exposure to Fluctuations in Exchange Rates and Any Related Hedges

Almost all of the income and expenditure of the Group were denominated in Hong Kong Dollar, RMB and USD. In view of the stability of the exchange rates among these three currencies, the Group has not been subject to exchange rate fluctuation exposure and thus no financial instruments have been adopted for hedging purpose.

New Business, Material Acquisitions and Disposals

There was no new business, material acquisitions and disposals of subsidiaries and associated companies in the financial period under review.

Prospects

As the existing businesses of the Group continued to be operated at a loss, the Board has been considering expanding its presence in the fast-growing automotive market in the PRC, the feasibility of expanding the Group's operations into other areas, such as biotechnological field and seeking investment opportunity in capital markets.

In exploring the future development of the Group's business operations, the Board is preliminarily considering and exploring the feasibility of establishing an automobile distribution network of the Group with about 15 distribution outlets in certain larger cities in PRC. The possibility of establishing of such a network is still at an initial stage of review by the Board and no binding agreement has been entered into by the Group in relation to such a network.

Certain directors have been devoting substantial time and efforts in the USA to spearhead the implementation of the Company's proposed diversification of investment and business activities into the USA markets, including investments in biotechnological and related areas.

15

SUBSTANTIAL SHAREHOLDERS' INTEREST IN THE SHARE CAPITAL OF THE COMPANY

As at 30th June 2003, according to the register kept by the Company pursuant to section 336 of the Securities and Futures Ordinance ("SFO") and so far as is known to, or can be ascertained after reasonable enquiry by the Directors, the following persons had an interest or short position in the shares and underlying shares of the Company ("Shares") which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Note	Number of Shares	Percentage
Sun East LLC	1	630,304,400	49.88%
Pure Shine Limited ("PSL")		162,951,000	12.90%
Brilliance China Automotive Holdings Limited ("BCA")	2	162,951,000	12.90%
Success Well International Group Limited		73,438,000	5.81%