

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30th June 2004 (2003: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

The Group continued to face a difficult time in the first six months of 2004. Compared with the corresponding period last year, the Group's turnover for the six months ended 30th June 2004 decreased by approximately 40.3% to HK\$6,198,000. The Group has recorded an unaudited loss attributable to shareholders of HK\$23,300,000 for the six months ended 30th June 2004, which is similar to the corresponding period in 2003.

(a) *Games center*

At the beginning of the period under review, the Group was operating four indoor family entertainment game centers in the People's Republic of China (the "PRC"). In February 2004, the entertainment center in Shanghai was closed because of its unsatisfactory performance. The closure of the game center resulted in a decrease in the turnover by approximately 55.2% to about HK\$1.1 million but a smaller loss of HK\$1.0 million in the first half of 2004. In September 2004, the game center in Wuxi was also closed due to the expiry of tenancy agreement. Total revenue and loss incurred from the Shanghai and Wuxi game centres for the six months ended 30th June 2004 were approximately HK\$475,000 and approximately HK\$609,000 respectively. The Group has no intention to commit more resources to this business line as the prospects for operating indoor game centers in PRC is gloomy in the highly competitive environment in the market.

(b) *Automobile axles*

The Group's 51% owned sino-foreign equity joint venture (the "JV") established in the PRC, Shenyang Liao Hua Automobile Axles Company Ltd maintained operations in the first half of 2004 with revenue amounting to approximately HK\$5.1 million and loss of HK\$1.02 million at operating level as compared to HK\$0.69 million in the corresponding period last year. However as the local government reclaimed the land of the factory site of the JV for redevelopment, the JV suffered impairment to its fixed assets to approximately HK\$5.6 million, hence the JV reported a loss attributable to the Group (after deducting minority interests) of approximately HK\$3.3 million for the six months ended 30th June 2004. Production had been temporarily suspended due to the relocation of plant. The Chinese partner requested a substantial expansion in the investment of the JV, the Group is reviewing the proposal and will decide in a view of maximizing the Group's benefit and the best interest of the Group.

(c) *Investment business*

The Group maintained its position in locating favorable investment projects globally. During the period under review, the Group managed to reduce its expenses but still recorded a net loss of HK\$18.8 million.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's liquidity and financial resources remained strong. The Group had cash and bank balances of approximately HK\$101 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 approximately 100 employees at 30th June 2004. It has been the Group's policy to ensure that the remuneration of its employees are 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 for the purpose of providing 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.

CHARGES ON GROUP ASSETS

As at 30th June 2004, the Group had aggregate banking facilities of HK\$500,000, all of them remained unutilized. The facilities are secured by a time deposits of HK\$700,000. 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

In March 2004, the Group made an investment of US\$2.75 million for a minority stake in an American company which holds a controlling stake in a PRC Company. That American Company is neither a subsidiary nor associate company of the Group. The PRC Company currently operates car dealership for 13 major brands of passenger cars. The Board is of the view that the investment in the American company will bring significant benefits to the Group.

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

SUBSEQUENT EVENT

On 20th September 2004, American Compass Inc. (“ACI”), a wholly owned subsidiary of the Company, entered into a loan agreement (the “Loan Agreement”) with an American company (the “Borrower”). ACI agreed to make available to the Borrower a term loan facility in the maximum principal amount of up to US\$5.6 million. The loan bears interest at 5% per annum and is fully repayable in three months after the drawdown of the loan or otherwise upon demand. The loan is secured by a share mortgage of 25% equity interest of a subsidiary of the Borrower. The terms and the conditions of the loan agreement was arrived at arm’s length negotiation basis under normal commercial terms. The loan of US\$5.60 million was drawn on 24th September, 2004. The Company made an announcement of this transaction on 22nd September, 2004. A circular setting out details of the Loan Agreement will be sent to the shareholders as soon as practicable.

PROSPECTS

As the existing businesses of the Group continued to operate at a loss, the Group’s short term objective is to increase its profitability while refocusing on PRC’s rapidly growing automobile services and distribution market. The Group is confident that this objective will be achieved within the next fiscal year.

The majority of the directors have been devoting substantial time and efforts in the United States of America to spearhead the implementation of the Company’s proposed diversification of investment and business plan. One of the Group’s subsidiaries in the United States of America identified several investment opportunities and is prepared to commit investments in opportunities including property development and capital market, and expanding its business in PRC’s automotive distribution market.