

DIRECTORS' COMMENTARY

FOR THE SIX MONTHS ENDED 30 JUNE 2005

FINANCIAL REVIEW

Turnover

For the six months ended 30 June 2005, VXL Capital Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") achieved a turnover of HK\$2.48 million, comprising corporate advisory fees and interest income from bank deposits.

The turnover decreased by 11% when compared to the six months ended 30 June 2004, which was mainly due to a drop in corporate advisory fees. During the period under review, the Group has repositioned itself in the financial and corporate services industry and a new management team of professionals was formed to cope with the challenges. The reduction in corporate advisory fees was primarily due to the establishment of the new management team towards the later part of the period under review and the increasing income from new mandates is expected in the second half of the financial year ending 31 December 2005.

The Group achieved a higher interest income of HK\$1.61 million when compared to that for the six months ended 30 June 2004 of HK\$0.35 million, as a result of efficient cash management and higher interest rates.

Operating Expenses

The Group has formed a new management team and brought in professionals with solid qualifications and experiences from the property, corporate finance and banking sectors for the three tier areas of strategic investments, namely property investment, financial services and resources investment. The Group has also boosted its resources in the financial and company secretarial sectors with professionals to strengthen the financial information system and corporate governance practices.

The operating costs for the six months were mainly attributable to the staff costs, legal costs, and professional and consultancy fees in relation to various projects being explored by the Group, higher office rentals and depreciation of the new office premises.

DIRECTORS' COMMENTARY (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2005

FINANCIAL REVIEW (continued)

Liquidity, Financial Resources and Capital Structure

The Group maintains a very strong liquidity position with a bank and cash balance of HK\$163.95 million as at 30 June 2005. The cash reserves have been placed with major banks in the Hong Kong SAR in the form of time deposits and short term high yield currency linked deposits.

During the six months ended, and as at, 30 June 2005, the Group had no borrowing or any loan outstanding, except its obligations under finance leases which are maturing within three years.

Gearing ratio is measured on the basis of the Group's total interest bearing debts net of cash reserves over the Company's shareholders' funds as of the date of this report. As the Group has surplus cash reserves after netting its borrowings at 30 June 2005, the gearing ratio as required under Appendix 16 of the Listing Rules did not exist.

The Group has placed cash on high yield currency linked deposits. These deposits are linked to either European currencies or Australian dollars and will be exposed to the fluctuation of exchange rates. Save as disclosed above, the Group did not have any foreign exchange contract for hedging purposes.

BUSINESS REVIEW AND PROSPECTS

The Group believes that the decrease in the revenue is only temporary and this will not affect the Group's financial position in the long-term. As mentioned in our previous reports, the Group has repositioned itself into three tier areas of business components, namely property investment, financial services and resources investment.

Property Investment

The Group anticipates that the demand for premium-quality properties is increasing in the Hong Kong SAR and in major cities in the People's Republic of China ("PRC"). The Group continues to identify potential investment opportunities in this sector to achieve a long-term capital appreciation and to generate a recurring cash income for the Group.

With the objective of enhancing the medium and long-term capital value in properties, Arrow Star Investment Limited, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement on 23 June 2005 to purchase an investment property ("Property") in North Point for a consideration of HK\$110 million. Up to 30 June 2005, deposits of HK\$11 million were paid and the remaining balance of HK\$99 million was payable on the date of completion of the acquisition. The acquisition was completed on 9 September 2005. The Property comprises 96 serviced units and a retail shop and is generating a monthly licensing and rental income of approximately HK\$0.7 million under the existing tenancy and license agreements, equivalent to approximately HK\$ 8.4 million per annum. Given that the current occupancy rate of the Property is over 90% and serviced apartments are becoming more popular in the Hong Kong SAR, the Group considers that there will be a strong demand for the serviced units of the Property.

DIRECTORS' COMMENTARY (continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2005

BUSINESS REVIEW AND PROSPECTS (continued)

Financial Services

With the significant increase of foreign direct investments into the PRC since its entry into the WTO, the Group anticipates that cross-border merger and acquisition activities will keep increasing in the PRC. To gain from this development, the Group has repositioned itself and has formed a new management team of professionals competent to take advantage of such opportunities.

The Group's new professional management team has accumulated invaluable experience and built up far-reaching and extensive business networks. The Group believes that these factors will put us in good stead to strengthen the Group's financial advisory services and capable in undertaking the expected increase in business.

Given the performance of VXL Financial Services Limited ("VXLFSL") in the first two months of the third quarter in 2005, the Group has noted that there has been an increase in the number of retainer agreements and mandates awarded to VXLFSL.

Resources Investment

In response to the high demand for natural resources in the PRC, the Group is inspired to engage in resources-related investment and financing activities. With reference to the policies of the PRC on natural resources in this decade, privatization and foreign direct investments have been encouraged by the government as a key strategic reformation for State-Owned-Enterprises in the PRC. To take advantage of the policies, the Group is proactively exploring investment opportunities in collaboration with our associates and strategic partners in the PRC.

Given the Group's healthy financial position and extensive business connections in the PRC, the Group believes that it is capable of meeting the needs of economic and business environment in the PRC by providing professional services in resources trading, investment and financing.