

INTERIM DIVIDEND

The Board of directors does not recommend any interim dividend for the six months ended 30 June 2001 (2000: Nil).

BUSINESS REVIEW AND PROSPECTS

Results

During the six months ended 30 June 2001, the Group recorded an unaudited net loss attributable to shareholders of HK\$57 million, representing a decrease of 66.3% as compared with a loss of HK\$168.9 million for the six months ended 30 September 2000 which was the corresponding comparative figures derived from the unaudited condensed consolidated interim financial statements then ended since the Group changed its financial year end date from 31 March to 31 December effective for the accounting period ended 31 December 2000. The loss per share for the current period was HK0.39 cents as compared with the loss per share of HK2.03 cents for the period ended 30 September 2000. Turnover was HK\$119.3 million, a decrease of 48.4% from 2000's level of HK\$231.3 million, which was mainly due to the substantial decrease in investment in trading securities of 59% for this period (HK\$81.9 million in this period versus HK\$199.6 million in 2000) despite an increase of 24.6% from the provision of brokerage and financial services from HK\$28.5 million in 2000 to HK\$35.5 million for the current period.

Review and Outlook

During the period, the Group has focused its efforts on the core business of property investment and provision of brokerage and financial services. The Group has further pursued to expand business in the promising Financial Services sectors through the issue of new shares in the Group's financial-service arm, Hennabun Management Inc. ("HMI Group") to a new independent shareholder. During the period, about 42.9% of the Group's turnover was contributed by HMI Group. For the businesses of provision of brokerage and financial services, an operating profit (before provision of bad and doubtful debts) of HK\$11 million was contributed therefrom during the current period. Besides, excluding the loss on disposal of an investment property of HK\$2.8 million, an operating profit (before financial costs) of HK\$4.3 million was contributed from letting out of the investment properties during the current period. For the investment in trading securities, due to the weak performance of the local stock market during the period, the activity in the investment in trading securities had been substantially decreased which resulted in the decrease in turnover from HK\$199.6 million for the

period ended 30 September 2000 to HK\$81.9 million for the current period and the operating loss thereof has been narrowed to HK\$17.2 million for the current period as compared with the loss of HK\$82.3 million in 2000. As to the High-Technology sectors, an operating loss of HK\$18.8 million was incurred during the period.

In view of the recent clear and growing evidence of an economic downturn in the United States of America, which has significantly increased uncertainties and bearish sentiment in the global business environment, Hong Kong's recovery has been pushed back substantially and the Group will take a cautious approach whilst maintaining an open attitude to look for prospective attractive investment opportunities.

Liquidity and Capital Resources

During the period, the Company's financial position has continued to improve and the Group's capital base has been strengthened by the completion of 3 share placements and the issue of 735,000,000 new shares arising from exercise of employee share options, raising a total additional equity of approximately HK\$97 million (before issuing expenses) and HK\$7.8 million respectively. After the period ended, the Company has made additional placements of shares raising a total of HK\$82.6 million (before issuing expenses) in new equity to further strengthen the Group's capital base and the balance sheet.

As at 30 June 2001, the Group's total shareholders' funds amounted to HK\$591.3 million compared with HK\$543.6 million at 31 December 2000. As at 30 June 2001, the Group had net current assets of HK\$146.5 million including cash and bank balances of HK\$75.9 million compared with net current assets of HK\$82.8 million including cash and bank balances of HK\$75 million at 31 December 2000. As a result, the Group has continued to improve its capital-debt structure with the achievement of a gearing ratio of 101.1% and current ratio of 1.3 times at 30 June 2001, compared to 109.2% and 1.2 times respectively at 31 December 2000.

As most of the Group's transactions and bank deposits were denominated in Hong Kong dollars, the Group's exposure to foreign exchange risk was minimal.

Pledge of Assets

As at 30 June 2001, certain assets of the Group with an aggregate carrying value of HK\$610.1 million were pledged to banks and other financial institutions to secure credit facilities granted to the Group. In addition, interests in and loans to two associates were pledged to secure an outstanding loan and interest payment payable to a lender.

Contingent Liabilities

The Company has given a guarantee to a third party to the extent of HK\$53 million in respect of a convertible note of HK\$53 million issued by an associate which was previously a subsidiary. Furthermore, pursuant to a subscription agreement entered into among the Company, a non wholly-owned subsidiary and a third party, the Company agrees to make payment to the subsidiary up to the maximum of HK\$50 million should the subsidiary fail to achieve the financial performance as stipulated in the agreement. The maximum amount of such payment which may be absorbed by the subsidiary's minority shareholders according to their equity interests therein is estimated to be approximately HK\$9.5 million.

Employees

As at 30 June 2001, the total number of employees of the Group was 81. The Group remunerates its employees based on their performance, working experience and prevailing market standards and reviews their remuneration annually. Staff benefits include a medical insurance coverage, provident fund and a share option scheme.

Prospects

As mentioned above, the recent releases of the financial and economic performance figures continue to signal sustained economic slowdown in the United State of America's economy despite repeated and vigorous reductions in Fed Fund rate during the first half of 2001. The Board has decided to take an even more cautious attitude towards new investment opportunities especially in view of the just occurred terrorist attacks in New York and Washington, the political, military and financial hub of the United States of America which might in turn have a chain and global effect on other countries and regions including Hong Kong. However the Board feels optimistic by the increasing international co-operative vigor to unite globally to cope with the resulting economic downturn and looks forward to the end of the worst and a pending recovery. The Group with its improved and strengthened financial position is well-placed to take advantage of such up-turns. The Board thus remains cautiously optimistic about the medium term prospects for the Group.