

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

For the current fiscal year, the Group primarily derived its revenue from the Acme Landis Division, which is engaged in the business of sanitary ware trading and plumbing engineering projects. Turnover of the Group was HK\$247 million, a 45% decrease from the previous year. The decrease in revenue was due to a depressed real estate market and the resulting dearth of property development projects.

Gross Margin

Gross margins increased to 22.5%, compared to 14.9% in the previous year, primarily due to changes in the revenue mix. Fiscal 2000 included significantly less engineering project revenue, compared to fiscal 1999, which generated lower margins than the sanitary ware trading business.

Operating Expenses

Operating expenses were HK\$156.7 million for fiscal 2000, compared to HK\$65.8 million for fiscal 1999. The increase was primarily due to the various IT and Internet ventures that the Group has embarked upon since May 2000. The total operating expenses for the IT

ventures and the Acme Landis Division were HK\$71.3 million and HK\$85.4 million respectively, for the fiscal year 2000.

Liquidity and Capital Resources

As at 31 December 2000 the total shareholder's equity of the Group was approximately HK\$245.2 million, an increase of 79.5% over that as at 31 December 1999. At the balance sheet date, the cash and cash equivalents stood at HK\$116.5 million. The increase in cash was primarily due to the proceeds from the issue of 800 million shares (at an issue price of HK\$0.25 per share) to a consortium of investors led by H&Q Asia Pacific in May 2000. The Group's cash is primarily in Hong Kong and US dollars, and placed in leading commercial banks as time deposits with various maturities. Bank borrowings amounted to HK\$15.6 million, a decrease of 20.6% over that of the previous year. The decrease was due to less business being transacted, leading to lower utilization of banking facilities. The borrowings are all short-term bank loans.

In May 2000, the Group issued 41,000,000 shares to F&T Analysis Company Limited (renamed Asiaweb ASP Limited "Asiaweb ASP"), in exchange for 49% equity in Asiaweb ASP. At the date of the Asiaweb agreement, the closing price of the Company's traded shares was HK\$2.15.

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The gearing ratio of the Group, calculated by Total Debt divided by Shareholder's Equity at the balance sheet date, is 6.3%.

Employees and Remuneration Policies

As at 31 December 2000, the Group employed approximately 346 full time management, technical and administrative staff in Hong Kong and the PRC. Among the total, 159 were in the Acme Landis Division. The Group remunerates its employees based on their performance, experience and prevailing industry standards. The Group has a share option scheme to motivate valued employees.

REVIEW OF OPERATIONS

solution100

solution100 is i100's wholly-owned digital solutions provider, focused on telecommunications applications and services development in the Greater China market. The company has offices in Hong Kong, Shenzhen, Shanghai and Beijing, and employs over 80 people.

solution100 provides a wide scope of solutions, ranging from ISP service platforms and voice over IP network integration, to unified messaging systems

and billing systems, to the leading telecommunication companies and service providers in China. Leveraging its existing telecommunications expertise and relationships, solution100 has developed a Wireless Services Practice to provide solutions to service providers, device manufacturers and end users.



Year 2000 was a challenging time for the company. However, the company has made significant progress in a tough market environment. The key to this has been the high quality of its staff and its successful penetration of the telecommunication carriers market, an area where solution100 has robust relationships and strong technical skills and knowledge.

solution100's accomplishments include the speedy and successful completion of three significant projects. The fact that the team completed the set up of these initiatives within a very short time, and to a high standard, is testament to the skills and expertise of solution100.

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- Ask100 is Asia's largest and most comprehensive Internet platform to uniquely integrate a network of 300 expert topics, providing high-quality original content and net-links
- OnAir100 is the world's first comprehensive, Chinese-language, Internet-based gateway of multimedia contents to target both consumers and businesses
- FoodNet100 is an electronic marketplace for purchasing and selling agricultural products, food, and food related products in China

solution100's key asset is people. The team is young, dynamic, technically savvy and encompasses an elite level of project management experience.

Another advantage that solution100 enjoys is a close connection with the global venture capital community. Through i100 and its major shareholder, H&Q Asia Pacific, solution100 has access to the forefront of technological development. It continuously strives for acquisition opportunities and keeps itself abreast of developments in both the Asia Pacific region and the rest of the world.

Since the merger with Shanghai Cyberway, solution100 has achieved synergies beyond expectation.

Through its merger with Shanghai Cyberway, solution100 has gained an excellent team of local experts for its China operations. Shanghai Cyberway is a leading telecommunications and technology solutions company and one of the earliest players in China's emerging Internet market. Based in Shanghai, it serves major clients in different regions of China, including Zhejiang, Shanghai, Hubei and Jiangsu.

The Cyberway merger was a key step in solution100's fast-paced development in the telecommunications and e-business solutions market in Greater China. It boosted solution100's strong presence in the region and provided a powerful network of blue-chip Chinese solutions customers, including a number of Posts & Telecommunications, Administrative and Governmental organizations. Since the merger, swift progression has been made in terms of new business development. The company has achieved synergies beyond expectation, quickly realizing value optimization.

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solution100 has also generated enormous growth opportunities through its dedicated research and development teams in Shanghai, Shenzhen and Hong Kong. In line with solution100's latest focus on wireless applications, solution100 is currently deeply involved in researching and developing high quality wireless technology and services.

solution100 sealed its first significant contract in November 2000, with Sino Telecom. This transaction involved the deployment of VoIP gateways to four major cities in China.

solution100 has gone on to build an impressive network of partner companies. These include Canadian 01 Communiqué, AsiaWeb Technologies Group, Korean EGC&C Co. Ltd., Compaq, IBM, Fujitsu, kanhan.com, Microsoft, Openwave Systems Inc. and The Monitor Group. These partners provide solution100 with the cutting-edge technology and services it requires for its clients. solution100's ability to attract and maintain partnerships with foreign vendors is a crucial element of its success.

With the arrival of more killer applications in wireless and broadband, China's Internet usage is likely to be driven even higher. solution100 has a clear direction and vision of its role in this area.

Recent partnership highlights include:

- Securing the rights to market Canadian 01 Communiqué's unified messaging and communication software product line across China and Hong Kong. 01 Communiqué Laboratory Inc (TSE: ONE) is a publicly traded, Canadian high-technology corporation. A market leader in PC communications software solutions, the company develops and markets software that integrates a full range of communication and messaging capabilities, including fax, voice, data and Internet applications (Internet e-mail, phone, fax and video). These powerful tools provide users with a single communication point of access or portal for all their communication needs.

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- Delivering leading “Cast365” multicasting technology to the region through a partnership with EGC&C Co. Ltd., a Korean technology company. As a specialist solution provider for high-speed webcasting, EGC&C have obtained patent rights for the multicasting and distributed streaming solutions that can resolve the flaws of the webcasting business model.

The emerging trend is a requirement for larger vendors to consolidate their product offerings, and in order to do this they will need support and services from external specialists such as solution100. One example is that telecommunications carriers will begin to merge data and voice services, requiring dedicated technical input. solution100 will be, through its existing relationships with telecommunications carriers, in a strategic position to offer this service.

- Securing the opportunity to market Openwave Systems Inc.’s (NASDAQ: OPWV) new wireless Internet email product across Greater China. The company provides Communication Service Providers, including wireless and fixed line carriers, ISPs, portals and broadband providers worldwide, with the software and services they need to build boundary-free, multi-network communications services for their subscribers. Openwave’s portfolio of products includes software for unified messaging, mobile mail, directory services, wireless Internet gateways, voice processing, synchronization and instant messaging.

Another noteworthy factor is China’s booming Internet usage. With the arrival of more killer applications in wireless and broadband, usage is likely to be driven even higher. solution100 has a clear direction and vision of its role in this area. It will focus on three target markets:

- Supplying implementation and other services to Internet Data Centers in China
- Offering broadband platforms and technical services
- Providing the technology and services to support all facets of Mobile Internet

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In addition to traditional system integration and customized system development, solution100 will enable service providers to offer added value to their customers via packet based micro-billing, mobile polling, mobile alert platforms, wireless content conversion and personalized portal services. At the device level, solution100 will provide wireless-enabled mobile devices for seamless communications. For end-users, they provide unified messaging services and other “across device” applications to fulfill mobile computing needs.

A key objective of solution100 is to expand market coverage geographically. solution100 plans to expand into more locations in China, and the rest of the Asia Pacific region such as Taiwan and Singapore. The company also plans to continuously recruit and train new skill sets to stay at the forefront of the latest technological developments in both systems and applications.

Ask100

Ask100 integrates a scalable network of 300 expert-hosted topics, providing high quality, rich original content and handpicked net-links.

Ask100 has found success in migrating its business model to other platforms.

The largest of its kind in Asia, Ask100 features forums, newsletters and Q&A sessions to facilitate interaction among users and experts, as well as an “Info-games” section, which encourages user participation and loyalty. A points earning system encourages users to join a community, increasing stickiness and distinguishing it from competitors.

Ask100 has numerous partnerships that deliver value-added services and generate revenues. These include:

- Up-to-the-minute financial, sports and entertainment news from online Chinese news provider, Wisers
- Financial news, stock quotes and fund information from online financial service providers, Boom.com and fundexpert.com
- Interactive recruitment services, property searches and valuations, travel reservation services, insurance and automotive content from Futurego.com, Ctrip.com, PA18.com, House18.com and Carnet.com



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- Links with BuzzCity.com, a proprietary email alert service provider, enable Ask100 to regularly transmit newsletters to registered subscribers. Meanwhile, China-channel.com, a domain name registration company, provides comprehensive domain name and Internet services to Ask100 China
- 8848 and Ask100 China jointly launched “Fortune Gambling”

Ask100 China was selected as a premier content provider by OICQ, mainland China’s largest instant messaging service provider. Industry research also rates Ask100 as one of the most popular websites.

Ask100 has found success in migrating its business model to other platforms, in particular wireless Internet. In January 2001, Ask100 Hong Kong launched wap.ask100.com for mobile WAP users. This was followed in February 2001 with the launch of WAP Info-games. Ask100 is also working on projects to deliver content and services through other handheld devices such as PDAs and pocket PCs.

OnAir100 has moved with the market, adapting its business model to leverage on its key strengths.

Wireless Internet is set to become mainstream in Asia and Ask100 intends to build on existing skills, databases and partnerships to take full advantage of this development.

OnAir100

OnAir100 operates an end-to-end multimedia-enabling service for businesses. This includes a professional production and technical team of people that are highly skilled in webcasting, streaming, multimedia and broadband applications. Simultaneously, OnAir100 is the world’s first comprehensive Chinese-language broadband multimedia directory, uniquely integrating a directory of global multimedia hyperlinks, originally produced programs and ranking lists.



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During the year, OnAir100 has successfully secured a number of contracts to supply webcasting and streaming services, which has tremendous growth potential with increasing broadband adoption. These include:

- r-b-t, franchise seminar
- Motorola Asia Pacific Ltd, “Go-Green” ceremony
- Smartone Broadband, Smartone Road shows
- Citibank, IT Training Program 2000
- IDG World Expo Ltd, Internet Commerce Expo 2000
- CoCo Lee Singapore Concert
- Hi-Tech Web Awards 2001
- SUNDAY 2000 Annual Results Analyst Presentation
- Smartone “Sydney Olympics”
- Mandatory Provident Fund Association, online game promotion
- SpringTime Production, “Jubilee” musical
- World Game Federation

OnAir100 has an impressive network of partner companies. These include, IBM, IDG, PCCW, Diyixian, Motorola, Hi-Tech Weekly, HP, r-b-t, HKNet, SUNDAY, Asian IT Expo, Citibank, CR2, PromoDuck, IMS broadband services and Boom.com.

OnAir100 possesses unique features that give it an edge over competitors. For instance, the 24-hour “Air-J’s” that provide real-time, live shows alongside interactive chat rooms for members. Another example is OnAir100’s fine-tuning of industry-wide tools, such as Windows Media Player, to achieve superior configuration results in narrowband and broadband.

OnAir100 has moved with the market, adapting its business model to leverage on its key strengths. 2001 will see its multimedia-enabling business grow even further, especially as the wireless adaptations dimension is added to the business model.

FoodNet100

FoodNet100 is China’s first nationwide e-marketplace for the food and agricultural products and equipment supply chain industries. This revolutionary marketplace facilitates efficient trading and operates as an authoritative center of information for decision-makers in the Chinese food industry, providing industry information, resources, consulting and technical services.



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FoodNet100 is jointly owned by i100 and China State Farm Agribusiness (Group) Corporation (“China State Farm”), one of the largest state owned agriculture and food conglomerates in China.

Other than enabling on-line trading, FoodNet100 has built important alliances that serve to facilitate supplementary trading logistics.

FoodNet100 takes care of fulfillment (quality assurance and logistics) and settlement services for FoodNet100’s members through its partnership with China Standards Technology Development Corporation (“China Standard”), and its joint venture with SGS-CSTC.

FoodNet100 has also formed strategic alliances with the Beijing Food Association and the Chinese Food Association for Science and Technology. These partnerships will enable the promotion of e-commerce among food industry players throughout China.

Acme Landis

For fiscal 2000, the division was faced with a congruence of adverse trading conditions, which resulted in a significant reduction in revenue. The depressed state of the property market and a dearth of property transactions have adversely affected the sanitary ware and the plumbing engineering business (turnkey installation of sanitary ware).



For 2001, the challenging market conditions appear to remain unabated. The slowdown in the wholesale of sanitary wares is expected to continue, attributable to unstable supplies from manufacturers. And the business volume in plumbing engineering is likely to decrease due to the drastic curtailment of land supply by the Hong Kong SAR Government.