

## FINANCIAL REVIEW

### Revenue

Turnover of the Group was HK\$198 million, a 20% decrease from the previous year. The decrease in revenue was due to a continuing lethargic real estate market and the resulting reduction in sanitary engineering.

### Gross Margin

Gross margins decreased to 14%, compared to 22.5% in the previous year, primarily due to an overall drop in sales prices and changes in revenue mix. Prices for our sanitary products and engineering services were under great pressure due to tough competition in the market.

### Operating Expenses

Operating expenses were HK\$157.6 million for fiscal 2001, compared to HK\$156.7 million for fiscal 2000. During the year, significant expenses were incurred in all facets of development work for our wireless data service. The total operating expenses for the Acme Landis Division and the non-Acme Landis Division were HK\$73.1 million and HK\$84.5 million respectively, for fiscal 2001.

During the year, a director of the Acme Landis Division, who is also a director of the Company, received remuneration of HK\$5.3 million, HK\$3.5 million of which was related to his current and prior years' services.

### Liquidity, Financial Resources and Capital Structure

As at 31 December 2001, the total shareholders' equity of the Group was approximately HK\$126.9 million, a decrease of 48.3% over that as at 31 December 2000. At the balance sheet date, the cash and cash equivalents stood at HK\$32.7 million. 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\$4.3 million, a decrease of 72.2% over that of the previous year. The borrowings are all short-term bank loans. The gearing ratio of the Group, calculated by total interest bearing debts divided by shareholders' equity at the balance sheet date, was 3.4%. During the year, the Group acquired the business of Shanghai Cyberway CompuComm Limited for a consideration of HK\$454,000 which was satisfied by the issuance of 873,000 ordinary shares of the Company. The net assets acquired were approximately RMB1.2 million.

### Charges on Group Assets

As at balance sheet date, certain leasehold land and buildings of the Group with an aggregate carrying value of HK\$13,900,000 were pledged to certain banks to secure banking facilities granted to the Group.

### Contingent Liabilities

The Company's contingent liabilities amounted to HK\$87.1 million at the balance sheet date, compared to HK\$107.1 million in 2000. These contingent liabilities are corporate guarantees given to secure general banking facilities granted to subsidiaries.

### Employees and Remuneration Policies

As at 31 December 2001, the Group employed approximately 215 full time management, technical and administrative staff in Hong Kong and in elsewhere in the People's Republic of China (the "PRC"). Among the total, 166 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 has continued to build alliances with leading companies from around the world in order to distribute their products and services, with added value, in the Greater China market. These include digital video recording solutions from Canada and innovative wireless security products from the United States. This business brings an immediate income to the company and continues to be part of a dual-pronged strategy in 2002.

However, solution100's current main business focus is in the provision of multimedia platforms. The company will build on existing software application design, implementation and service expertise to build an integrated multimedia platform that incorporates voice portal applications, next generation video streaming and a full messaging and data product portfolio. This strategy will provide solution100 with a solid revenue stream in the longer term. The company believes that by delivering a complete and cutting-edge foundation platform for businesses in this rapidly growing sector, solution100 can become a leading applications provider in the region.

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Given the world market situation and the company's expertise and experience, solution100 continues to focus primarily on Hong Kong and China, whilst also sourcing partnerships to leverage expansion into other lucrative markets.

### **Joint Venture with The Leadcorp (formerly known as "Dong Teuk")**

In June 2001, the Group announced Korean wireless leader The Leadcorp's 8% strategic equity investment in the Company and that the Group and The Leadcorp were to incorporate and unify their respective wireless entertainment businesses.

By pooling together the expertise of both companies, the Group and The Leadcorp are now strategically positioned to lead in wireless entertainment. The Group contributes its experience in wireless technology and telecommunications solutions, whereas The Leadcorp leverages its expansive network in Korea to identify and source game publishers, supported by its unique wireless entertainment expertise, and Korea's leading position in the worldwide wireless industry. This is a perfect partnership for meeting the expectations of the rapidly growing global market for wireless entertainment connectivity.

Together, the Group and The Leadcorp have already formed alliances with two major Korean wireless entertainment companies, Toysoft and Nazca. We are now working to aggregate and distribute games from these Korean companies, in addition to globally sourced games, throughout the China market.

### **Wireless Data Service**

Throughout the year, the Group has worked to build a GPRS-driven and entertainment focused wireless data service for launch in 2002. The key principle of the service is that it fits perfectly with our target audience's mobile lifestyle, and as such, building partnerships with a variety of international content providers has played a central role in this year's efforts. So far, a large plethora of content partnerships have been secured. The partnerships offer content breadth and depth, but above all, are immediately attractive to people "on the move".

We have also formed partnerships with leading wireless games companies from Europe, Korea and Taiwan, and are now able to incorporate their proven games into our wireless service as well as working with major telecommunication carriers towards exclusive deployment in China. In addition, we have developed unique wireless applications, including instant messaging, that provide a platform to generate interactive mobile communities, and we are now looking to develop advanced multimedia messaging services.

The partnerships we have formed, as well as marketing and technical expertise, guarantee a perfect fit with our target audience's mobile needs and we look forward to a successful launch.

### **Legacy Businesses**

Although daily operations of Ask100 and OnAir100 have already been scaled down significantly, the Group has fully utilised their resources by redirecting them into the new wireless data venture. The subscriber databases, community base, content links and technical expertise of the team have been put to full use in the company's wireless data and entertainment initiatives.

### **Acme Landis**

The Acme Landis business suffered negative growth in turnover and consequently higher losses were recorded. 2002 is the first synchronized global profits recession in over a decade. As a result, all divisions in the business reported lower sales, with sanitary ware and engineering departments being more markedly affected. The Hong Kong economy, in which a large percentage of the business depends, continued to deflate and the lack of pricing power is reflected in lowering margins both in the domestic wholesale business as well as in the engineering business.

Looking to 2002, the domestic deflationary pressures appear to be abating slowly, and with this, the likelihood of an increase in local demand, both in residential flats, as well as in the wholesale market of sanitary ware, is improved. However, as the Hong Kong economy has suffered a number of "false dawns" in the past, the directors remain extremely cautious regarding a sustainable rebound in demand for this coming year.