

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

For the year under review, the Group recorded a loss attributable to shareholders of HK\$58,816,000 (1999: HK\$93,418,000) and turnover of HK\$83,831,000 (1999: HK\$158,344,000).

As the Group's major investment in the Internet business should begin to show results during 2001, the financial results for the year under review primarily reflects the performance of the manufacturing businesses.

As at the balance sheet date, the Group's net assets were HK\$101 million compared to net liabilities of HK\$27 million in 1999.

THE GROUP'S LIQUIDITY AND CAPITAL RESOURCES

During the year under review, the Group successfully completed the allotment of new shares, placement and rights issue. Correspondingly, the Group was able to reverse its position from a negative equity company to a positive one. The major movement in the shares issue transactions during the year are as follows:—

Date	Description	Net Proceeds
1 February 2000	Allotment of shares	HK\$ 30 million
1 March 2000	Placing of shares	HK\$ 127 million
3 July 2000	Allotment of shares	HK\$ 48 million
21 December 2000	Rights issue of shares	HK\$1,110 million

The net proceeds raised from these transactions were used to repay bank borrowings, financing expansion of the Group through acquisitions of information technology related businesses and for general working capital purposes.

As at the balance sheet date, the Group had cash and bank deposits of HK\$148 million (1999: HK\$3 million) which includes foreign currency deposits of US\$18.2 million (1999: US\$0.2 million) and RMB3.7 million (1999: RMB0.6 million).

The Group's consolidated net borrowings reduced from last year's figure of HK\$74 million to HK\$43 million, resulting in a gearing ratio of approximately 43% as measured by net borrowings (including convertible notes) to shareholders' equity as at the balance sheet date.

The amount of debt due within one year as at the balance sheet date amounted to HK\$39 million. The Group plans to settle these debts from internal resources and/or available facility.

MANAGEMENT DISCUSSION AND ANALYSIS

The table below shows the type, maturity, currency and interest rate profiles of borrowings as at the balance sheet date.

	2000 HK\$'000	1999 HK\$'000
DEBT MATURITY PROFILE		
Within one year	38,510	39,911
Within two to five years	152,922	37,221
Total	191,432	77,132
INTEREST RATE PROFILE		
Unhedged floating	37,648	65,286
Fixed	153,784	11,846
Total	191,432	77,132
NATURE OF DEBT		
Secured bank loan	134,805	65,286
Secured promissory notes	36,176	—
Secured other loans	7,963	4,167
Convertible notes	6,500	—
Unsecured other loans	5,988	7,679
Total	191,432	77,132
CURRENCY PROFILE		
Hong Kong Dollars	48,664	71,493
Reminbi	141,296	4,167
US Dollars	1,472	1,472
Total	191,432	77,132

MANAGEMENT DISCUSSION AND ANALYSIS

As at the balance sheet date, the Group's secured borrowings amounted to HK\$179 million (1999 HK\$69 million) and were secured by the followings:

- (i) The Group's entire shareholdings in Gold Fortress Holdings Limited and all assets held by Fairform Manufacturing Company Limited, both are wholly-owned subsidiaries of the Company.
- (ii) Legal charge on certain leasehold land and buildings of the Group situated in the PRC with carrying value of approximately HK\$19 million at the balance sheet date.
- (iii) Legal charge on the Group's US dollars fixed deposits with a PRC Bank amounted to approximately US\$ 18.1 million as at the balance sheet date.

FUNDING STRATEGY AND FOREIGN EXCHANGE EXPOSURE

To manage the risk associated with an uncertain market environment, the Group pursues a funding strategy of using equity as far as possible to finance long-term investments.

The major currency exposure for the Group is the US\$18.2 million fixed deposit at the balance sheet date. We take the view that the Hong Kong dollar will remain pegged to the U.S. dollar for the foreseeable future. Therefore, foreign exchange risk associated with the U.S. dollar fixed deposits will be minimal and no hedging has been arranged.

The Company does not actively seek to hedge risks arising from foreign currency translation of investments in subsidiary and associated companies due to its non-cash nature and the high cost associated with such hedging.

BUSINESS REVIEW

Year 2000 was indeed a challenging year. With the completion of the Group's debt restructuring and the introduction of new independent investors provided further funding, the Group is back to positive financial health. Furthermore, with the infusion of a new management team, the Group has set new business direction to reposition itself as a leading high technology service provider in the People's Republic of China (the "PRC").

With this new business direction in mind and the available funds from investors, the Group mainly concentrated on exploring for investment opportunities in the Internet-related businesses in the PRC during the year. The Group's major investments into this business is expected to yield results during year 2001, thus the financial results for the year primarily reflects the performance of the manufacturing business under the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Manufacturing Business

For the year under review, the Group's turnover derived from the manufacturing operation amounted to HK\$77.5 million, a 51% decrease from the previous year. This was mainly due to the unsatisfactory performance in the first half of the year, which is a carry-over effect from the Group's negative financial position in 1999 that affected the confidence established with the Group's major customers and suppliers in the past. Consequently, suppliers tightened their credit offerings and customers' reluctance in placing orders for fear of the Group's financial impediment affected timely delivery obligations. However, the recovery of the Group's financial health after the completion of the financial restructuring exercise boosted the confidence in customers and resulted in a substantial volume of production orders received by the OEM manufacturing division in the second half of the year. The pick up in sales in the second half of the year is seen to have mitigated the drop in turnover as compared to last year.

Loss from operations amounted to HK\$38.9 million, a decrease of 54% as compared to last year's loss of HK\$83.8 million. The operating loss for the year was mainly due to a provision of HK\$13.1 million made for doubtful debts and impairment in value of investment property and land and building. In addition, a loss of HK\$7.6 million was made for writing off and disposal of assets. The operating loss for the previous year was mainly due to a provision of HK\$26 million for impairment in value of properties and obsolete inventories.

The improved results for the year were mainly attributable to the managements' efforts placed in enhancing the quality and competitiveness of the Group's products by rationalizing costs so as to improve the overall production efficiency and focusing on products with a reasonable margin.

Internet Business

To seize opportunities from the rapid growth in the PRC's Internet-related businesses, in 2000, the Group has expanded its business operations by venturing into Internet-related businesses, especially in the PRC.

The Board believes that the Group's investment in the Internet-related business in the PRC will offer attractive returns to Shareholders in the long term. Details of the investments are depicted as follows:

In March 2000, the Group formed a 50-50 Joint Venture (the "JV") with Winfast Profits Limited, a wholly-owned subsidiary of China Infohighway Communications Co. Ltd. ("IHW"), a leading Internet service provider ("ISP") in the PRC. The JV is engaged in the provision and management of Internet-related services in Hong Kong and the PRC. The initial projects of the JV are to develop two portals, one targeting children and family users (the "Children Portal") and one targeting women (the "Women Portal") in the PRC. The progress of the JV is encouraging. The Children Portal was successfully launched in June 2000 and the response was overwhelming. It has also indirectly contributed income to the Group. More importantly, the Group perceives the success of this project as a positive contribution towards its future Internet business opportunities in the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

In April 2000, the Group acquired a 100% equity interest in an Internet content provider (“ICP”) and web-development technology company, Space Treasure Limited (trading as Chinacon.net), for a consideration of HK\$20 million. Chinacon.net has a proven track record in the information technology and Internet field and a team of experienced industry professionals.

To effectively capture market opportunities in the PRC, the Group entered into a co-operation agreement with Beijing Infohighway Information and Technology Ltd. (“BIHW”) and Beijing Tsinghua University, School of Economic Research and Management for the development of the China Standard Enterprise Portal featuring an informative research database and a standard credit rating system on enterprises in the PRC. This strategic alliance is expected to strengthen and further reinforce the Group’s reputation and competitiveness in the Internet business in the PRC.

To support the Group’s information technology development on the infrastructure side, the Group acquired a 2-core optical fibre cable with a total core length of 440 fibre kilometers, covering the section from Guangzhou to Zhuhai in the PRC in July 2000. The Directors believe that the acquisition of the optical fibre cable will complement the existing Internet business operated by the Group and will provide an additional revenue stream for the Group and the Shareholders in the long run.

In August 2000, the Group acquired a 20% interest in Megabit Telecom Inc. (“Megabit”) which directly holds a 90% interest in BIHW. BIHW is principally engaged in the development and provision of network infrastructure, equipment and consultancy services for Internet-related businesses in the PRC. BIHW entered into the Cooperation Agreement pursuant to which IHW engaged BIHW, on an exclusive basis, for its provision of network infrastructure, equipment and consultancy services for its Internet operation in the PRC for a term of 20 years from the date of the Cooperation Agreement up to 21 July 2019. In addition, BIHW intends to broaden its revenue base by participating in “Intelligent Buildings” (“iBuildings”) projects that will involve installation, consultancy services and development of optical fibre network systems for both commercial and residential buildings in major PRC cities. The Board believes that the iBuildings will provide attractive returns to the Group.

In December 2000, the Group further acquired an 80% interest in Megabit at a consideration of HK\$1,040 million. Following the acquisition, the Group holds 100% of Megabit and a 90% interest in BIHW.

MANAGEMENT DISCUSSION AND ANALYSIS

In February 2001, BIHW, IHW and the operating companies of Beijing Telecom formed a strategic alliance to develop iBuildings in Beijing. Under the cooperation, the operating companies of Beijing Telecom will be responsible for the **last mile** solution on fibre connection between buildings and the local fibre network while BIHW and IHW will provide structure cabling services, broadband Internet access services and other value-added services for tenants of commercial buildings and hotels in Beijing. The initial stage of the cooperation will cover a total of 60 large-scale buildings in Beijing and is anticipated to be completed by the second quarter of 2001. The Group intends to extend the iBuildings business to other major PRC cities using a similar business model to cover Shanghai, Guangzhou and Shenzhen in the later part of the year.

REMUNERATION POLICY AND SHARE OPTION SCHEME

As at the balance sheet date, the Group employed approximately 64 (1999: 43) staff in Hong Kong and had approximately 1,021 employees (1999: 727) in Mainland China.

The Group recognises human resources as the most important asset and duly reward staff through fair remuneration packages and other fringe benefits which includes a contributory provident fund and medical insurance plans. In addition, the Group may also grant discretionary bonus to eligible staff based on the Group's performance and individual merits.

During the year, the Company also granted share options to certain employees of the Group, entitling them to subscribe for shares of the Company. These options are exercisable in stages commencing twelve months from the date of grant. The expiry date of the options is ten years after the date of grant. No options have been exercised since the date of grant to 31 December 2000.