

Management Discussion and Analysis

FINANCIAL RESULTS

For the year ended 31st December, 2000, the Group's turnover was approximately HK\$142,122,000, representing a decrease of 2.8% from that of last year. Loss from operations was HK\$78,132,000, as compared to a profit from operations of HK\$17,934,000 last year. This was mainly attributable to, firstly the decrease in other revenue from HK\$40,205,000 in 1999 to HK\$1,031,000 in 2000 as a result of defaulted guaranteed profit in industrial projects in the PRC. And secondly to the enlarged administrative expenses resulting from the increased remuneration and compensation to ex-directors and ex-staff. Taking a prudent approach, total impairment losses of HK\$322,232,000 were recognized during the year in order to reflect the estimated fair values of certain investments of the Group. As a result, the Group reported a net loss of HK\$425,420,000 for the year. Loss per share was 19.53 cents.

REVIEW OF OPERATIONS

Power Plant

For the period, the Group was entitled to receive guaranteed income of HK\$20,654,000 from an investment project in a power generating unit in Henan Province, the PRC. As at the latest practicable date, the Group only received HK\$3,738,000. Additionally, the PRC Government's newly imposed restriction on the operation of small output power generating units may result in the cessation of operation. Therefore, the Group made a provision of HK\$90,821,000 for this investment project whilst initiating legal action to recover the impairment loss and the outstanding guaranteed income of HK\$16,916,000.

Coking Plant

Based on the sale and purchase agreement, the Group faced difficulties in collecting the HK\$45,872,000 guaranteed profit for the period from this arm of business. Apart from the sales growth of HK\$88,398,000 in 1999 to HK\$99,618,000 in 2000, which represents an increase of 12.7%, a loss of HK\$9,872,000 from the operation was recorded. The Group decided to make provisions and write off a total of HK\$143,340,000 for impairment loss and goodwill. In addition, the Group has also proceeded with legal action against the respective guarantors to recover the guaranteed profit. The provision made is to reflect the excess of carrying value of these assets over the estimated non-discounted future cash flows expected to be generated from them.

Automobile Repair and Maintenance Services

The automobile repair and maintenance business continued to contribute positively to the Group. However, in view of the continuous investment required to sustain its profitability, the new management may consider to withdraw from this business sector. Therefore, the goodwill of HK\$10,187,000 arising from Henan Motor Car Repairing Co. Ltd. was written off during the year.

Motor Spare Parts

Along the same lines as the automobile repair and maintenance business, the new management has further decided to retreat from the manufacture and sales of motor spare parts business and a full provision of HK\$2,243,000 was made.

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REVIEW OF OPERATIONS (continued)

Internet Software Services

The Group's Internet software services subsidiary Originsoft (Zhengzhou) Co. Ltd., an Internet software provider based in Henan Province, the PRC was unable to deliver the guaranteed profit of HK\$2,821,000 for the year to the Group. In view of the uncertainties of the business performance and its lack of market potential, the new management decided to fully write off the goodwill of this project which amounted to HK\$71,642,000 and at the same time to proceed with legal action to recover the outstanding guaranteed profit and related loss in the goodwill written off.

Telecommunications Infrastructure Projects

During the year, the Group's principal associated company Henan Zhongzhou Radio & TV Information Network Co. Ltd. ("Henan Zhongzhou") continued to grow. Henan Zhongzhou's cable network has now been extended to reach over 2,900 km and provides broadcasting services and data transmission services. In view of the increasing demand for quality high speed data transmission in the PRC, the Group has identified this area as one of the main development focuses for the future. In addition, this arm of business is expected to complement the Group's new investments in quality high speed data transmission to warrant sustained growth.

EVENTS AFTER YEAR END DATE

Pursuant to an agreement dated 15th January, 2001, the former and existing executive directors of the Group and an independent third party agreed to the transfer of 300,000,000 shares. The completion of these share dealings originally scheduled on 28th February, 2001 was subsequently extended to 15th May, 2001.

In January and April, the Group acquired an interest in Sharpo Holdings Limited ("SHL") and Excellent Idea Group Limited ("EIGL") respectively. SHL is engaged in e-commerce consultancy, software development, system integration and web design. EIGL, via its subsidiaries, is an integrator and provider of information and data for broadcasting through the satellite in the PRC. These investments signify a new phase in the Group's business development. In addition, they are expected to create synergies with the existing investment in telecommunications infrastructure to facilitate high speed data transmission through the satellite and optic fibre networks.

Details of the above-mentioned transactions are set out in the notes to the financial statements.

EMPLOYEE AND REMUNERATION POLICY

As at 31st December, 2000, the Group employed 607 people of which 586 were in the PRC. Total employment costs for the year ended 31st December, 2000 excluding directors' remuneration, amounted to approximately HK\$15,278,000 (1999: HK\$6,687,000). Under the Group's remuneration policy, employees are rewarded by reasonable and competitive remuneration on a performance-related basis. In addition, the Group has a share option scheme for senior executives and staff.

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LIQUIDITY AND FINANCIAL RESOURCES

Despite the provisions made during the year, the liquidity of the Group remains healthy. As at 31st December, 2000, cash on hand stood at HK\$114,715,000 and net asset value was reported at HK\$317,431,000. The Group's current ratio also improved to approximately 1.36 this year from approximately 1.07 last year. As at 31st December, 2000, the Group has no significant operating lease and capital commitments for any of its subsidiaries or associates. Of the current bank loans of HK\$94,104,000, the Group is held directly liable for HK\$ 46,440,000 only.

Upon disposal of certain non-core investments throughout 2001, additional cash will be generated for future investment opportunities.

PROSPECTS

In view of the surging demand for speedy data transmission by various media in the PRC, the Group will focus mainly on developing businesses in telecommunications infrastructure and the high technology sector. Upon completion of the financial and business restructuring, the Group's financial position will be further strengthened, creating a solid basis for future business development.

The Group's new business strategy is to focus on opportunities with better returns, high growth potential and uniqueness. In particular, the Group is under active negotiation for various hi-tech related projects and aims to secure an exclusive operational status in the PRC.

With the business re-direction, the Group is taking on a new development focus. Whilst the directions are set, there are still many challenges. The development pace will very much depend on the progress of asset disposal. On the other hand, the management's commitment and connection within the technology community in the PRC is expected to expedite future growth.

Hence, the Group will benefit from a leaner and better position once the structural changes are completed. With renewed strengths in all fundamentals, the new management is confident that the Group's outlook will remain promising in the long term.