

BUSINESS REVIEW

During the year ended 31 March 2001, the Group committed to transform itself into an IT company by innovating and focusing on the development of communications infrastructure and technology related businesses. This new business direction has been recognized with its inclusion in the New Mid Cap 50 Index since 1 June 2000. Another significant achievement during the year was the selection of the Group as a constituent stock of both the Hang Seng IT Index and the Hang Seng IT Portfolio Index on 1 March 2001 by HSI Services Limited, showing the public's recognition of the Group's success in re-positioning itself as an IT company.

Fibre-optic Networking Business

Subsequent to the acquisition of DigiNet Group Limited ("DigiNet") in late March 2000, the Group underwent a re-engineering to merge the business and operation of DigiNet with the Group. Utilising the expertise of the fibre-optic experts joining the Group through this acquisition, the Group took a significant step to expand the coverage of its fibre-optic network from Guangdong Province to other key areas in the PRC. The construction work of the nationwide fibre-optic network has been substantially completed as of the financial year end. This network currently covers 9 provinces and connects over 70 major and the most prosperous cities in the PRC.

More significantly, as a major provider of communications infrastructure in the market, the Group was granted approval for its application of an External Fixed Telecommunication Network Services Licence ("Licence") for its telecommunications services from the Office of the Telecommunications Authority ("OFTA") of the Government of Hong Kong Special Administrative Region in March 2001. There are currently ten companies in Hong Kong which have been granted this Licence. The success in obtaining the approval for the Licence is a significant step in expanding the Group's business abroad and enhancing its leading position in the market.

The Licence authorizes the licensee to provide external public telecommunications service (which may be voice, facsimile, data or any combination of them) operated over external leased circuits supplied by a fixed telecommunication network services (FTNS) licensee at the Hong Kong end or over other external switched telecommunications services lawfully operated in Hong Kong at the Hong Kong end; and to provide telecommunications services routed in transit via Hong Kong subject to prior written approval being obtained from OFTA.

With this Licence, the Group can provide clients with interconnection services by connecting their network between Hong Kong and other countries through its external telecommunications service facilities. The management believe that with the authority granted by this Licence accompanied with the fibre-optic network in the PRC, the Group can better control its operating cost and thus, bringing in additional revenues for the Group.

Data Centre Business

In view of widespread support received from tenants of the Group's first data centre in Hong Kong which offered services in July 2000, the Group decided to construct another two data centres. However, due to change in market conditions, the Directors considered the prospects of the new data centres are not promising. Hence the Group adjusted its strategic planning and terminated the development project. The original data centre is still operating as expected, and continuing generating revenue to the Group.

Technology Related Business

In order to diversify the Group's existing business operation and strengthen its technology foundations, the Group formed a strategic alliance with Glenayre Electronics Inc ("Glenayre") in April 2000, to develop Unified Messaging Technology. Glenayre is a global leader in personal telecommunications products and message technology in the United States of America. Leveraging the technical support and professional expertise of Glenayre, the Group is able to enhance its technical know-how as well as to open up additional channels to penetrate into the international market.

To achieve its ultimate goal to become the "gateway" between the PRC and other parts of the world by providing communications infrastructure facilities and related value-added services, the Group will take a further step to explore the international market which promises such huge potential. In October 2000, the Group acquired a 11.11% equity interest of iTec World Limited ("iTec World").

iTec World is principally engaged in the provision of telecommunications services in Hong Kong and the PRC, mainly with the provision of Voice over Internet Protocol services and the development of value-added applications based on the IP network. The management strongly believe that with the well developed connections, experienced management team and expertise which iTec World possesses, synergies will be generated through co-operations between the Group and iTec World.

PROSPECTS

Fiber-optic Networking Business

In future, the Group will continue to strategically utilize its resources to strengthen the existing nation-wide fibre-optic networking business. With the PRC's imminent accession into the World Trade Organisation, huge demand for communication around the world will be a direct result. The PRC market will also gradually open up thus generating huge business opportunities for foreign enterprises. The Group considers this as a golden opportunity to further penetrate into the communications market and further expand its market share in the PRC.

Technology Related Business

Currently, the coverage of our services extends from Hong Kong to the PRC and Taiwan. It is also our intention to further develop into the Asia Pacific countries in due course. In the meantime, we are delighted to work with our business partners in the PRC in providing network connectivity and customer support services through a bilateral agreement.

To strengthen our leading position in the market, we will setup a reseller chain network in the PRC to rapidly expand our sales network. The baseline for our success will not rest on price competitiveness alone, but also on the quality of our services and resulting customer satisfaction.

Building on these success factors, the Group will continue to explore additional business opportunities in the industry to gain better returns for the shareholders.

FINANCIAL REVIEW

Operating Result

For the year ended 31 March 2001, the Group recorded a turnover of HK\$25,070,000 (2000: HK\$38,507,000) and a gross loss of HK\$28,468,000 (2000: a gross profit of HK\$6,312,000). Loss attributable to shareholders was HK\$433,402,000 (2000: profit of HK\$25,475,000). The turnover and gross loss for the year ended 31 March 2001 are analysed by business segment as follows:

	Turnover	Gross loss
	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Business segment</i>		
Leasing of fibre-optic network	12,139	19,100
Provision of telecommunications and Internet network engineering and related services	<u>12,931</u>	<u>9,368</u>
	<u><u>25,070</u></u>	<u><u>28,468</u></u>

Both business segments of the Group recorded a gross loss for the year. Due to the business nature, the operations require significant input of economic resources during the process of cultivating revenue. As the operations were still at the development stage during the year, they were not yet able to generate a sufficient size of revenue and hence they sustained gross loss margins. Overall, the Group recorded a loss from operations of HK\$80,630,000 (2000: HK\$30,481,000) for the year ended 31 March 2001.

For the year ended 31 March 2001, share of results of associate turned into a loss of HK\$1,355,000 from a profit of HK\$140,750,000 last year. The profit shared for the year ended 31 March 2000 was contributed by an associate, Plain Gold Holdings Limited ("Plain Gold"), which was 44% owned by the Group as at 31 March 2000. Plain Gold holds a 33% equity interest in Guangzhou South China Fiber-optic Cable Network Engineering Co Ltd ("SCFC"), which is engaged in the construction and leasing of fibre-optic network in Guangdong Province. The share of profit of associate for the year ended 31 March 2000 mainly represented the Group's equity share of profit arising from a partial disposal of the fibre-optic cores held by SCFC. There was no similar disposal during the year.

On 25 May 2000, the Group acquired a further 56% interest in Plain Gold and the entire interest in Opulent Deal Limited ("Opulent Deal"). Opulent Deal also held a 33% interest in SCFC. As a result, Plain Gold, Opulent Deal and SCFC became subsidiaries of the Group and Plain Gold ceased to be an associate since that date.

On the non-operating side, the Group recorded net non-operating expenses of HK\$340,420,000 (2000: HK\$34,493,000).

During the financial year ended 31 March 2001, the IT industry experienced fundamental changes in market conditions which have particularly impacted telecommunications, Internet and technology companies. Therefore, the Directors conducted a thorough review of the overall business strategy and the carrying value of the Group's assets. As a result, the Group recorded non-operating charges of HK\$232,051,000 and HK\$76,050,000 respectively relating to write down of the carrying value of certain fixed assets and provision against certain investments. In addition, the Group recorded non-operating charges of HK\$13,640,000 and HK\$14,779,000 respectively on disposal of several subsidiaries operating in non-core businesses and on termination of the construction projects of certain new data centres with diminished prospects. The Directors believe that these crucial measures will help to set a smooth platform for the Group in the coming years.

In addition, in response to the changes, the Group has adjusted its overall business strategy as well as the business focus of DigiNet which the Group acquired in March 2000. Pursuant to a conditional sale and purchase agreement in connection with the acquisition of DigiNet, the vendor of DigiNet guarantees and undertakes to the Group that the audited consolidated net profit after taxation and minority interest but before extraordinary and exceptional items of DigiNet shall not be less than HK\$20,000,000 for the financial year ended 31 December 2000. In the event of any shortfall, the vendor shall pay to the Group an amount equal to such shortfall. The result of the change in business focus of DigiNet caused the splitting and breaking up of the original businesses of DigiNet and have rendered the original profit undertakings impossible and impractical to enforce.

Use of Proceeds from Capital Raising

During the year ended 31 March 2000, the Company raised net share proceeds totalling HK\$785,055,000 from a placement of shares to independent investors and from a rights issue of shares to shareholders. HK\$407,000,000 and HK\$300,000,000 respectively of the net proceeds have been utilised to finance acquisitions of subsidiaries and construction of fibre-optic network. The remaining net proceeds have been fully utilised for general working capital purpose. There have been no change in the application of the share proceeds from those proposed in the relevant share issue documents.

Liquidity Position

In order to finance development of its fibre-optic network, the Group has secured a revolving loan facility of HK\$300,000,000 from a financial institution in Hong Kong, of which HK\$206,350,000 was drawn down as at 31 March 2001. The loan was denominated in Hong Kong dollars, unsecured, interest bearing at prevailing commercial lending rates, and not repayable prior to 31 December 2002. This loan was mainly used to finance the development of the fibre-optic network of the Group.

The group faced a relatively tight liquidity position during the year since the major operating asset of the Group, the fibre-optic network was still under development and contributed only a low level of cash inflows. The gearing ratio of the Group increased to 50% as at 31 March 2001 from 5% as at 31 March 2000 (it is derived by dividing the aggregate amount of bank borrowings, convertible bonds and other long term borrowings by the amount of shareholders' equity). The Directors consider the gearing ratio is within the acceptable level as it is not uncommon for infrastructure construction companies to have a relatively high gearing ratio at the development stage.

Nevertheless, the Group has recently started its pre-sale activities for bandwidth business and positive response has been received from certain customers. The Directors anticipate that the pre-sale activities will provide a major source of cash inflows to the Group during the financial year ending 31 March 2002. Together with the credit facilities already granted to the Group by existing financial institutions, the Directors believe that adequate funds will be available to the Group to support the ongoing operations.

Exchange Rate Risk

The Group is exposed to a very limited level of exchange rate risk as the business transactions of the Group are mainly denominated in Hong Kong dollars, Renminbi and United States dollars. Due to the stability of the exchange rates experienced by these currencies, the Directors consider that no hedging measure is currently necessary.

HUMAN RESOURCES

As at 31 March 2001, the Group hired a total of about 50 employees. The Group implements a set of human resources policies which recognizes and respects the right of individual candidate and adopts non-discriminatory employment principles giving equal opportunities to qualified candidates in employee selection process.

In compliance with the Mandatory Provident Fund ("MPF") Schemes Ordinance, the Group has set up two MPF schemes (the "MPF Schemes") in 2000 under a Trust Deed to provide retirement benefits for employees and executive directors. The Group has appointed the HSBC Provident Fund Trustee (Hong Kong) Limited as Trustees of the MPF Schemes which in turn appoints the investment manager and scheme administrator to manage the MPF Schemes in accordance with the Trust Deed and Rules of the MPF Schemes.