

RESULTS ANALYSIS

The Group's consolidated turnover for the year ended 31 March 2001 rose 47% to HK\$84.4 million, compared to HK\$57.5 million in the previous fiscal year. The increase was mainly attributed to strong revenue growth from technology services, which rose by over 190%. Overall, technology services contributed more than 55% of total revenues in the year 2001, compared to 28% in the last year. The rising percentage of technology services revenues to total revenues indicates that the Group is evolving from a property and investment company to an IT and software company.

The consolidated loss attributable to shareholders rose to HK\$821.3 million from HK\$313.9 million in the last year. The significant increase in the loss was mainly attributed to three areas:

(1) Operating loss

A large start-up investment was made to enter the Greater China IT and software market to ramp up revenue flows and build up the technology capability of the Group. This resulted in an operating loss (excluding the PowerPhone operations) of some HK\$144.0 million in 2001, representing 17.5% of the total consolidated loss.

(2) Loss incurred for PowerPhone business

In November 2000, the Group disposed of the interest in the PowerPhone business for approximately HK\$62.5 million. The operating loss incurred by the PowerPhone operations during the year reached HK\$106.1 million. A one-time disposal loss of HK\$220.5 million was recorded in the year 2001. As such, the loss related to the PowerPhone operations booked in the year 2001 amounted to HK\$326.6 million, representing 40% of the total consolidated loss.

(3) Provision for diminution in value of portfolio investments

The Group had reviewed its investment portfolio and taken a conservative accounting approach to provide for the diminution in value. A provision of HK\$319.3 million was taken in the year 2001, representing about 62% of the total cost of investments. Such investment provision accounted for 39% of the total consolidated loss.

Included in the Group's investment portfolio are Asian Information Resources (Holdings) Limited (stock no. 8025) and Beijing Beida Jade Bird Universal Sci-Tech Company Limited ("Beida Jade Bird") (stock no. 8095), whose shares are listed on Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited. The total cost of these two investments was HK\$21.8 million. However, the corresponding market value at 31 March 2001 was HK\$155.3 million. The unrecognized valuation gain amounted to HK\$133.5 million on listed investments was not reflected in the year 2001 accounts.

The Group's investment in Beida Jade Bird is one of the very few GEM Board companies that is profit making. It is engaged in the design, manufacture, marketing, distribution and sale of different embedded system products, all of which apply software and integrated circuits developed through its own research and development.

MAJOR ACQUISITIONS AND DISPOSALS

In April 2000, the Group acquired a 20% equity interest in Asia V-Sat Co. Ltd. ("Asia V-Sat"), a provider of broadband Internet connectivity that uses satellite network and sophisticated broadband technology in China. The total consideration was HK\$160 million, satisfied as to HK\$80 million in cash and the remaining HK\$80 million by the allotment and issue of 51,746,442 shares of the Company at HK\$1.546 per share. Asia V-Sat has made good progress this year including the establishment of three data centres and call centres in Beijing, Shanghai and Guangzhou, and has completed the first phase of building the ISP network across 50 major cities in China.

In May and August 2000, the Group acquired an aggregate equity interest of approximately 9.009% in HiTRUST.COM Incorporated ("HiTrust") for a cash consideration of approximately HK\$159 million. A joint venture called HiTRUST.COM (HK) Incorporated Limited was also formed by the Group and HiTrust and approximately HK\$16.5 million was paid by the Group for 36.4% equity interest in such joint venture in December 2000. Subsequent to this year end, the Group entered into a conditional sale and purchase agreement to dispose of the interests of these two investments for a cash consideration of HK\$15.6 million and to release the obligation of the Group for the repayment of a HK\$121.7 million loan which was previously raised for the purpose of financing such acquisition.

In August and September 2000, the Group disposed of all its investment in chinadotcom corporation. The gain on the disposal of shares amounted to HK\$177.7 million, representing a 227% return on investment.

In September 2000, the Group acquired the entire issued share capital of Jetco Technologies Limited, a software solutions company, for a consideration of HK\$93 million, satisfied by the allotment and issue of 193,750,000 shares of the Company at HK\$0.48 per share. Such acquisition facilitated the expansion of the Group's IT and software business in China.

FINANCIAL RESOURCES

The net proceeds of approximately HK\$492 million raised from the placement in February 2000 have been fully utilised during the year for financing investments in the technology related businesses and as general working capital of the Group, which were in line with the proposed application as specifically stated in the announcement of the Company dated 9 February 2000.

As at 31 March 2001, the Group's long term loans amounted to HK\$531.0 million, which mainly comprised bank loans of HK\$153.5 million secured by investment properties with market value totalling HK\$410.0 million, secured loan notes of HK\$230.3 million which are repayable on or before 31 December 2002 and a term loan of HK\$121.7 million. Upon the completion of the disposal of the interest of HiTrust subsequent to the year end, the Group's obligation to repay the term loan will be released. The net debt to equity ratio^{Note 1} at the year end was 1.28.

During the year, convertible notes in the aggregate amount of HK\$250 million have been converted into a total of 1,250,000,000 shares of the Company at a conversion price of HK\$0.2 per share, thus saving the Company interest expenses of HK\$12.5 million per annum.

The market value of the Group's investment properties as at 31 March 2001 was HK\$535.8 million. The Group is in the process of disposing the investment properties and focusing the resources to the core technology business.

Note 1: net debt to equity ratio = net debt / shareholders' funds
net debt = the aggregate of loans less cash and bank balances