

OPERATION REVIEW

During the year, the Group has been involved in the following businesses:

1. Business Application Services – China Enterprise ASP limited
2. Financial Information – Beijing Shihua International Financial Information Limited
3. Properties investment and development – South Sea Holding Company Limited
4. Other Investments

CHINA ENTERPRISE ASP LIMITED (“CE”)

During the period under review, CE, an 80% owned subsidiary of the Group, operates more than 19 branch offices throughout China, and has a team of about 1,400 sales person, engineers and other professionals. CE mainly provides such business services as production of corporate web sites; development of IT solutions for clients’ operations; registration of domain names; provision of e-mail system; and data center etc. for those enterprises choosing to move into the information age. The main stream of income is from the basic annual fee from each client, and additional revenue is generated from organizing of exhibitions, advertisements on web sites, management training, and various value added services. As from September 2001, CE will provide other online application services to clients and start to manage the total software requirements of clients both onsite and network basis. At present, CE has more than 15,000 enterprise clients throughout China. In the PRC audited report, CE recorded a revenue of about RMB58 millions and net profit of about RMB20 millions for the year ended 31 December 2000. In view of the continuous strong demand for web site developments and IT solutions by a large number of small-to-medium sized enterprises (“SMEs”) in China, the management is optimistic about the prospects of the business of CE.

Moreover, CE is recognized as one of the largest providers of the aforesaid services to corporate clients in China, and the management decided to further expand its market share by opening more new branches to meet the increasing demand from the SMEs. In view of the encouraging results of this operation, the management believes that CE is qualified for listing application in China.

CE and All China Federation of Industry and Commerce (“ACFIC” 中華全國工商業聯合會) have set up a joint venture in China, which may utilize ACFIC network with more than 2,700 branches in China, for providing CE’s business services. CE is also working closely with China Internet Network Information Center (“CNNIC”), the leading government Internet organization that manages the Internet industry, providing training services to corporations having business in the application of Internet technology.

It is believed that the application of Information Technology on business will continue to be the focus of enterprises in China in the coming years. Due to the extensive network and expertise of CE, the potential growth in this area will be guaranteed.

BEIJING SHIHUA INTERNATIONAL FINANCIAL INFORMATION LIMITED (“BEIJING SHIHUA”)

Beijing Shihua currently engages in the provision of proprietary software to institutional clients, and through satellite transmission and payment of an annual fee, such clients can receive real time data from Stock Exchanges and Future Exchanges in China. This service is being upgraded to include the provision of financial information and analysis, and will further expand to include both securities and futures investment and the trading of foreign exchanges. At this moment, Beijing Shihua is one of the leaders in China's financial information industry and commands a remarkable 80% market share in China's futures market.

The acquisition of Beijing Shihua complements the Group's strategy to be leader in the provision of business and information services to the business community in China. Equipped with Beijing Shihua's financial information, software and distribution capability, sales network and the teams of sales engineers of CE will become more efficient and profitable. During the first half of the year, Beijing Shihua readjusted its software development strategy to cover the market of the commodities industry, including oil, non-ferrous metal, and agricultural products. Beijing Shihua plans to launch the first Window OS based Internet application software in China in October 2001, which promises the first consolidated platform for the securities, futures, and foreign exchange markets in both data, analysis, and information provision. This platform is the first of its kind in China amongst local service providers. The Group believes this will not only expand the reach of Beijing Shihua's services in the corporate and institutional markets, but also tap into the retail sector including the Internet based individual users shortly, which further guarantees the larger client base. Such expansion is becoming solid since Beijing Shihua has successfully modified its communication mode from the single satellite-based transmission to multiple transmissions to various terminals on the clients' locations.

In addition to the provision of information and application services to clients, Beijing Shihua intends to take advantage of the liberalization of the securities industry in China, by participating in the provision of securities trading platform for brokers. This includes not only an Internet based trading system to multiple broker locations, but also the management software that provides managing services for the securities brokers. An investment management infrastructure for investors with multiple network appliances is also part of the complementary features to the trading platform. Beijing Shihua believes that the provision of financial information and analysis to clients in the near future will require full technological support in order to achieve an environment conducive to total access capability.

Beijing Shihua has a registered capital of RMB125 million, all of which has been fully paid up. The PRC audited net assets value as at 31 December 2000 was about RMB148.5 million (about HK\$137.5 million). The audited consolidated net profit after taxation, minority interests and extraordinary item of Beijing Shihua for the year ended 31 December 2000 was about RMB28.2 million (about HK\$26.1 million). The Group expects Beijing Shihua to become a major contributor to our bottom line in the years ahead.

SOUTH SEA HOLDING COMPANY LIMITED (“SOUTH SEA”, HKSE CODE 680)

The Group has acquired South Sea in September 2000. South Sea currently engages in the property development and investment in China while continuing its toys manufacturing business. The most significant property portfolio includes prime residential developments in Shenzhen and Guangzhou. Other projects include office development in Beijing and around 620,000 sq.ft. of residential development in Nanjing. These projects are expected to contribute significant cash flow for the Group in the next five to eight years once they are materialized.

Excessive overheads have been the major factor leading to the disappointing results during the past years of South Sea. As a result of a series of a cost cutting and operation re-engineering exercises, the management is confident to turnaround the operation, and achieve improved return in the next financial year.

OTHER BUSINESSES

The Group continues to widen its business opportunities by investing other potential and viable projects in China, e.g. an investment in Beijing Chinese Dadi Distance Education Company Limited, a joint venture in China offering distance education services to students and people who keep on pursuing further education. However, no profit is recorded during the period under review since the operations are still at an initial stage. The management is confident that these investments will turn to be fruitful in the next financial year with meaningful sales turnover and profit contribution to the Group.

FINANCIAL REVIEW

The net profit attributable to shareholders for the year ended 31 March 2001 amounted to HK\$15,677,000 (2000: HK\$47,987,000). The net assets value of the Group was HK\$1,876,735,000, representing approximately HK\$0.48 per share.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2001, the Group's aggregate bank borrowings were increased to HK\$419,945,000 (2000: HK\$200,700,000), and convertible loan notes were HK\$200,000,000 (2000: HK\$194,000,000). The bank borrowings has been increased of HK\$271,000,000 due to consolidation of the result of South Sea Holding Company Limited and Hancheers International Enterprise Limited, which were acquired during this financial year. The convertible loan note of HK\$200,000,000 was subsequently fully redeemed after year end date. The Group will continue to dispose of non-core properties for reducing the Group's liabilities.

	2001	2000
Gearing Ratio	45%	22%
Current Ratio	0.71	1.58

The deterioration in both the gearing and current ratio is mainly due to the consolidation of bank debts incurred by its subsidiary, South Sea which was acquired in September 2000.

In order to improve the liquidity of the Group, in August 2001, the Company entered into an underwriting arrangement with its substantial shareholders for the placement of up to HKD 1,000 million convertible notes. The proceeds from the placement of those new convertible notes will be used to settle debts and to finance some potential investments. Since the Company shall have the right to demand the holders of convertible notes to convert such notes into shares, the conversion of the notes will further improve the financial situation and strengthen the capitalization base of the Group.

In addition, the Group has conducted major restructuring exercises in the past year with South Sea. The aim of this restructuring is to rescue South Sea from going into total liquidation due to the dissatisfactory achievements made in the past. Such exercises as significant shift of business focus; elimination of unprofitable divisions; the issuance of new shares to enhance the capitalization of the Group; acquisition of profitable and viable business that could contribute steady income for the Group in the next few years; and aggressive reduction of overheads. Most of these exercises have been completed subsequent to the year-end.

The following are the list of actions the Group has taken in South Sea's restructuring.

1. Issuance of about 22.9 billion of new shares in the share capital of South Sea to increase its capitalization, representing an increase of HK\$2.29 billion in the share capital of South Sea;
2. Acquisition of properties assets with a total value of approximately HK\$2.8 billion for strengthening its asset base which enables South Sea to participate the rapidly growing property market in China;
3. Settlement of all trade liabilities as at 31 March 2001 with unsecured creditors of South Sea's major subsidiary, namely Team Concepts Manufacturing Limited by means of a scheme of arrangement (the "Scheme"). The Scheme has been approved by the unsecured creditors in the meeting convened in early July 2001. When the Scheme is sanctioned by the High Court of Hong Kong, South Sea will issue its new shares and convertible notes to the unsecured creditors, and the trade liabilities as at 31 March 2001 with the unsecured creditors will eventually be settled; and
4. The principal banker of South Sea has in principle agreed a debt restructuring arrangement with South Sea, subject to the completion of final documentations. Such debt restructuring arrangement will defer the repayment of all outstanding bank loans by 5 years with 30 months interest free, and will further relieve our financial burden substantially which in turn allows South Sea to operate its manufacturing business in a much financial relieved position.

EMPLOYEES

As at 31 March 2001, the Group had approximately 2,800 employees (2000 : 1,000), of which 140 were based in Hong Kong and 2,660 were based in the PRC. Remuneration policies are reviewed regularly by the Directors of the Group. Remuneration packages are structured to take into account the level and composition of pay and the general market conditions in the respective countries and businesses in which the Group operates.