

Message from the Chief Executive Officer

On behalf of the board of directors, I am pleased to present the annual report of Fairyoung Holdings Limited (“the Company”) and its subsidiaries (“the Group”) for the financial year ended 31st December, 2000.

RESULTS

The Group’s turnover was HK\$119,537,000, representing an increase of 156%, compared to last year’s figure of HK\$46,623,000. The loss attributable to shareholders was HK\$56,373,000. (1999: loss of HK\$69,516,000). The Group reduced the loss attributable to shareholders by 18.9%.

FINAL DIVIDEND

The Directors of the Company do not recommend the payment of a final dividend for the year ended 31st December, 2000 (1999: Nil).

BUSINESS REVIEW

During the year under review, Fairyoung has persevered with its strategy of diversification into different investment sectors, including property development, high technology businesses, educational information technology and infrastructure. For the past years, the Group has focused its efforts on maintaining interests in traditional high yield investments, and simultaneously repositioning itself as a strategic investor in the high-end technology and educational information technology sectors.

Property Development

The Group is pleased to report that, during the year under review, it has successfully sold out over 90% of residential complex and substantial part of commercial podium/carpark at Citic Fairyoung Building in Xiamen and Puxi Huipu Building in Shanghai, bringing in satisfactory revenue that accounted for 71% of the Group’s total turnover. In addition, the Group has completed the sales of all the condominium units in Los Angeles, USA. Having achieved significant success in the development and sale of residential property, the Group will continue to focus its future efforts on the development of residential and commercial property. The Hongshan Commercial Area in Xiamen and The Pudong Fairyoung Building in Shanghai, which the Group owned 100% attributable interests, are already in their construction stage. These two development properties have a total of 1,510,079 sq.ft gross floor areas and are expecting to contribute profit to the Group in the near future.

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Information and Technology Business

Investment in the high technology sector continues to be a priority for the Group in 2000. The global slowdown in the technology sector has affected the performance of Internet companies. The Group has therefore consolidated its investment in technology to focus on high tech companies with an established client base and proven business record. The Group sees tremendous potential in the software applications and system integration market in China. The Group's recent investment in Beijing Zotn Digital Technology Inc. is an archetype of this investment strategy.

Education Information Technology

The development of education information system employing high-end technology continued to be the Group's major focus during the year. The Group has signed a co-operation agreement with Beijing Xin Hua Book Co. Ltd. in 2000 and has set up a joint venture to develop an e-commerce platform for selling books online to customers in the Greater China Region and the overseas Chinese community. In addition, the Group is under negotiation with a PRC party to form a joint venture to distribute and sell teaching equipment, books, and computer software etc and plans to acquire physical stores to complement its online bookstore.

Infrastructure Investments

Infrastructure investment remains as a stable income to the Group. The operation of the toll bridge in Zhangjiakou continued to contribute to the Group as a significant and regular recurring source of revenue, helping to further strengthen the Group's financial position. The Group is also currently looking for any potential investors who are interested in the Group's ski-redevelopment project in Yabuli of Heilongjiang Province in the PRC.

PROSPECT

Capitalising on the emerging opportunities in the rapidly developing global high technology sector, the Group has been actively identifying areas for expansion with special focus on businesses with a strong foundation and high reward potential.

Well Known Technology Limited

During the first quarter of 2001, the Group successfully acquired 20% of the issued shares in Well Known Technology Limited ("Well Known") at a consideration of HK\$40,000,000. The guarantee by Well Known of a first year profit of not less than HK\$30 million further boosted the Group's confidence in its investment.

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Well Known has a 90% interest in a privately owned Shenzhen-based PRC company, Shenzhen Yuan Tang Baye Fingerprint Recognition Technology Co., Ltd. which engages mainly in the design and development of the Live 3-Dimensional Fingerprint Technology (“L3DFT”). It also manufactures and sells L3DFT related products such as Fingerprint Security Systems, Fingerprint Door Locks and Fingerprint ATMs etc.

The overwhelming enthusiasm of the broad base of significant corporate customers towards the technology also evidenced its development and application potentials. The Group expects Well Known’s products, developed from its patented L3DFT, to experience exponential demand initially in the PRC and subsequently spreading into the global market, translating into significant returns from its investment.

Lawsons Infotech (Holdings) Corp.

The Group has dedicated major efforts and resources into developing its Education Information Technology (“EIT”) strategy. At the core of its proven successful EIT strategy is the establishment and cementing of alliance with strategic partners.

In March 2001, the Group has signed an agreement for the acquisition of 20% of Lawsons Infotech (Holdings) Corp. (“Lawsons”), at a consideration of HK\$25,000,000. Lawsons is a company engaged in selling, distribution and payment settlement in the Asian Customer Relationship Management (“CRM”). Leveraging Lawsons’ one-stop direct marketing and direct response fulfilment facility, the Group has formed two project companies which will be used to operate the previously acquired educational websites, namely “tinyschool.com.hk” and “bjbb.com.cn”, aiming for higher effectiveness. The established marketing network coverage of Lawsons will allow the Company to further penetrate the enormous and still growing PRC education market.

The Group’s EIT strategy also encompasses the establishment of B2B and B2C operations targeting audiences in the Greater China region. The acquisition in Lawsons will enable the Group to outsource the selling, distribution and payment settlement functions and hence minimise its administrative costs in addition to exploiting its current penetration of the PRC market. The Group believes that the EIT operations has a bright future and is committed to continuing its investment in the sector.

Beijing Zotn Digital Technologies Inc.

In order to further fosters the position as an important strategic investor in the high technology business in the PRC, the Group has subscribed for 29% of the issued shares of Golden Yield Enterprises Limited (“Golden Yield”) at a consideration of HK\$67,193,000 in September 2001. Golden Yield is an investment holding company, holding a 70% equity interest in Beijing Zotn Digital Technologies Inc. (“Zotn Digital”).

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Zotn Digital offers one-stop information technology solution services providing consultation, enterprise software development, application software customisation, hardware integration, staff training and customer support. It has developed its own proprietary software, “Talent Series” and “Zotn Series” which has received overwhelming response among the government agencies, achieving an impressive 80% market share among government ministries and agencies at federal level. Also, Zotn Digital has maintained a strong presence in the major China enterprises, mainly in telecommunications such as China Telecommunications and China Mobile. The strong client bases provide a solid foundation for the growth of Zotn Digital. Apart from that, there is still a huge market potential to be exploited among the large number of government agencies at the provincial and city levels, reflecting a promising future for Zotn Digital.

The Group believes that this acquisition will enable the Group to immediately capitalise the technical strengths of Zotn Digital and build a strong presence in the PRC as a provider of information technology applications solutions, bringing in exponential financial gains. It will enhance the Group’s position as an important strategic investor in the high-tech business in the PRC and bring better returns to the shareholders.

In the coming year, the Group will focus its core businesses in the property, hi-tech business and educational information technology. The Group will continue to seek and identify new investment opportunities with high growth potential in the future. The Group aims to further diversify and expand its investment portfolio and maximize investment returns.

Building on the Group’s excellent business network and connections in the PRC, the PRC market will remain as our prime focus. At the same time, we will continue to explore other potential markets to effect further expansion of our business network. The Group will strive to capture all arising business opportunities and continue to make untiring efforts to bring excellent returns to our shareholders.

BORROWINGS AND PLEDGE OF ASSETS

The maturity profile of total bank loans of the Group as at 31st December, 2000 is analysed as follows:

	31st December	
	2000	1999
	HK\$’000	HK\$’000
Bank loans repayable:		
Within one year or on demand	35,240	97,030
In the second year	2,938	85
In the third to fifth years, inclusive	41,623	296
Over five years	786	7,552
	<u>80,587</u>	<u>104,963</u>

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Of the total bank loans as at 31st December, 2000, about 75% was denominated in Reminbi and the remainder in HK dollars. As at 31st December, 2000, the Group had available aggregate banking facilities of HK\$90,081,000 of which HK\$9,494,000 has not been utilised.

As at 31st December, 2000, certain assets of the Group with aggregate carrying value of HK\$101,356,000 and HK\$198,000,000 have been pledged to secure banking facilities granted to the Group and an independent third party. Certain furniture and equipment with a carrying value as at 31st December, 2000 of HK\$35,056,000 have been pledged to secure other loans granted to the Group.

EXCHANGE RISK

As the Group's operations are principally in the PRC and all assets and liabilities are denominated either in Reminbi, HK dollars or US dollars, the Directors believe that the operations of the Group are not subject to significant exchange risk.

HUMAN RESOURCES

Employee remuneration are in accordance with the nature of their duties and remain competitive under current market trend. The Group has participated in Mandatory Provident Fund Scheme in December 2000 on schedule.

APPRECIATION

On behalf of the Board, I would like to express my gratitude to the management and staff for their continuous dedication and invaluable efforts in the past year. We would also like to thank our shareholders, investors and business partners for their continuing support and confidence.

Wong Siu Kay, Joe
Chief Executive Officer

Hong Kong, 30th October, 2001