FINANCIAL RESULTS

For the year under review, the Group recorded a loss attributable to shareholders of HK$1,216,597,000 (2000: HK$58,816,000) and turnover of HK$124,434,000 (2000: HK$83,831,000).

The increased in loss as compared to previous year can be analysed as follows:

i) The impairment loss of Goodwill carried in reserves arising from the acquisition of the Chinacon.net Group and the Megabit Group in year 2000 which amounted to HK$1,131 million provided during the year to reflect:

- The first time adoption of certain accounting standards which became effective for accounting periods beginning on or after 1 January 2001;
- The speedy down-turn of the market conditions and the Internet environment and multi-media related business; and
- The delay in progress of Intelligent Buildings projects in the PRC.

(ii) The increased in administrative expenses of HK$33 million as compared to previous year were mainly due to:

- The increase in staff costs by HK$2 million due to the restructuring costs associated with staff redundancy incurred during the year.
- The related costs incurred on the issue of the US$10,000,000 3% Convertible Notes amounted to HK$8 million which was an one-off expenses incurred during the year.
- The administrative expenses attributable to Beijing Infohighway Information and Technology Ltd. (“BIHW”) and Zhuhai Tianxin Business Software Limited (“Tianxin”) amounted to HK$21 million were consolidated to the Group for the first time since the acquisition in December 2000 and October 2001 respectively.

The increase in turnover was mainly due to contributions from consultancy fees charged for the Intelligent Buildings projects by BIHW in the PRC. The manufacturing business managed to maintain a slight increase in turnover for the year under review.

The Group has tightened controls on operating costs to increase its operational efficiency and maintain its competitiveness through a series of restructuring exercises, which include reducing manpower both in Hong Kong and the PRC.

At the balance sheet date, the Group’s net assets were HK$79 million (2000: HK$101 million). The drop in net assets is mainly due to the impairment of the Group’s optical fibre amounted to HK$21 million and the amortisation of goodwill arises from the acquisition of the software development business amounted to approximately HK$5 million.

DIVIDENDS

No interim dividend was declared for the year (2000: HK$Nil). The directors do not recommend the payment

THE GROUP'S LIQUIDITY AND CAPITAL RESOURCES

During the year under review, the Company entered into a Subscription Agreement (the "Agreement") with independent third parties to issue 3% convertible notes with an aggregate principal amount of US$20 million (the "3% Notes") and warrants (the "Warrants"). In July 2001, the Company issued US$10 million of the 3% Notes and 8,150,366 warrants. The net proceeds raised from the issue of the 3% Notes and the Warrants amounted to approximately HK$70 million were used to repay bank and other borrowings and for general working capital purposes.

Up to the date of approving the financial report, approximately US$2.2 million of the 3% Notes, out of US$10 million and approximately US$5,000 as interests, were converted into 12,402,926 ordinary shares of the Company. On 22 March 2002, the 3% Notes holders issued a Triggering Event Redemption Notice to the Company upon the occurrence of a triggering event, due to the Closing Price of the shares of the Company for a seven consecutive trading days after the issue of the Notes having been below HK$0.65. In view of the early redemption notice issued by the 3% Notes holders, the outstanding balance of approximately HK$65 million of the 3% Notes were reclassified as current liabilities in the financial year ended 31 December 2001.

The outstanding 4% Convertible Notes of HK$6.5 million (the "4% Notes") matured on 31 January 2002. Up to the date of approving the financial statements, the 4% Notes have not been repaid by the Company as it is the intention of the Company to extend the maturity of the 4% Notes by 1 year to 31 January 2003. In accordance with terms and conditions of the 4% Notes, any amendments to the 4% Notes require consent from all the 4% Notes holders. In the event that the Company is unable to obtain the consent from all the 4% Notes holders, the amount of HK$6.5 million and the interests accrued thereon shall be repayable upon demand. As the Company may not obtain the consent from all the 4% Notes holders, the outstanding balance of the 4% Notes has not been reclassified as non-current liabilities in the financial year ended 31 December 2001.

During the year, certain employees of the Group exercised their rights to subscribe for 4,850,000 shares of the Company under the share option scheme adopted on 2 June 1997. The proceeds received from the subscription amounted to approximately HK$2.9 million were used for general working capital purposes.

At the balance sheet date, the Group had cash and bank deposits of HK$84 million (2000: HK$148 million) which includes foreign currency deposits of US$9.7 million (2000: US$18.2 million) and RMB0.3 million (2000: RMB3.7 million).

THE GROUP'S LIQUIDITY AND CAPITAL RESOURCES *(continued)*

The Group's consolidated net borrowings increased from last year's figure of HK$38 million to HK$116 million, resulting in a gearing ratio of approximately 147% (2000: 38%) which is expressed as a percentage of the Group's net borrowings (includes convertible notes) over shareholders' equity of HK$79 million as at 31 December 2001 (2000: HK$101 million).

The amount of debt due within one year at the balance sheet date amounted to HK$199,506,000 (2000: HK$32,522,000). The Group has on 4 February 2002 repaid the secured promissory notes of HK$13 million through the draw down of its existing unsecured facility line of HK$200 million. On 7 January 2002, the Group also repaid the PRC bank loan of HK$75 million through the pledge deposits with the bank for the same amount.

The outstanding loan due within one year of HK$112 million as at the date of approving the financial report mainly relates to the early redemption of the 3% Notes which is due and payable no later than 9 May 2002.

The directors of the Company are of the opinion that the Company and the Group will be able to meet their obligations as and when fall due after taking into account the following:

(i) loan facilities totaling HK$200 million made available to the Company from a financial institution; and

(ii) continuing financial support received from the ultimate holding company.

The directors believe that the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements.

THE GROUP'S LIQUIDITY AND CAPITAL RESOURCES *(continued)*

The table below shows the type, maturity, currency and interest rate profiles of the Group's bank and other borrowings at the balance sheet date.

	2001	2000
	HK$'000	*HK$'000*
DEBT MATURITY PROFILE		
Within one year	**199,506**	32,522
Within two to five years	**–**	152,922
Total	**199,506**	185,444
INTEREST RATE PROFILE		
Unhedged floating	**45,460**	37,648
Fixed	**154,046**	147,796
Total	**199,506**	185,444
NATURE OF DEBT		
Secured bank loan	**76,238**	134,805
Secured promissory notes	**13,088**	36,176
Secured other loans	**8,037**	7,963
Convertible notes, unsecured	**71,243**	6,500
Unsecured other loans	**30,900**	–
	199,506	185,444
CURRENCY PROFILE		
Hong Kong Dollars	**50,488**	42,676
Reminbi	**82,804**	141,296
US Dollars	**66,214**	1,472
	199,506	185,444

At the balance sheet date, the Group's secured borrowings amounted to HK$97 million (2000: HK$179 million) and which were secured by the followings:

(i) The Group's entire shareholdings in Gold Fortress Holdings Ltd. and all assets held by Fairform Manufacturing Company Limited, of which both companies are wholly-owned subsidiaries of the Company.

(ii) Legal charge on certain leasehold land and buildings of the Group situated in the PRC with carrying value of approximately HK$16 million (2000: HK$19 million) at the balance sheet date.

(iii) Legal charge on the Group's US dollars fixed deposits with a PRC Bank amounting to approximately US$9.7 million (2000: US$18.2 million) at the balance sheet date.

FUNDING STRATEGY AND FOREIGN EXCHANGE EXPOSURE

To manage the risk associated with an uncertain market environment, the Group pursues a funding strategy of using equity as far as possible to finance long-term investments.

The major currency exposure for the Group is the US$9.7 million of fixed deposit and other borrowings of US$8.5 million at the balance sheet date. As the Hong Kong dollar will remain pegged to the U.S. dollar in the foreseeable future, the foreign exchange risk associated with the U.S. dollar fixed deposits and other borrowings is expected to be minimal and thus no hedging was arranged.

The Company does not actively seek to hedge risks arising from foreign currency translation of investments in subsidiary and associated companies as such hedging is typically costly and constitute non-cash transaction.

BUSINESS REVIEW

Manufacturing Business

During the year, the Group recorded a slight growth in the manufacturing operation as compared to last year. This is mainly contributed from the results in the first half of the year. However, the September 11 crisis caused the manufacturing business turnover to be lower than what it would have otherwise achieved in the second half of the year. This is significantly reflected in the dropped in orders placed by the Group's major American customers which indicated their reluctance to keep stock in fear of worsening market conditions as a result of the crisis.

Turnover derived from the manufacturing operations increased by 19% to HK$92,503,000. Results from operation in the Manufacturing division recorded a loss of HK$7,730,000 as compared to HK$26,498,000 last year. This is as a result of the management's focus on products with a reasonable margins and the fact that a substantial portion of the loss recorded last year were one-off expenses provided on non-performing assets.

Internet-related Business

Turnover derived from the Internet-related operations amounted to HK$29,185,000, representing a four-fold increase as compared to previous year. Results from operation in this division recorded a loss of HK$1,173,173,000 as compared to HK$3,904,000 last year. The increase in turnover is mainly comes from consultancy fees charged under the Cooperation Agreement (the "Agreement") entered between BIHW and China Infohighway Communications Co., Ltd. ("IHW") for advisory services rendered, in particular, on the Intelligent Buildings projects during the first half of the year. In the second half of the year, no consultancy fees were charged as a result of the slow progress in the Intelligent Buildings projects by IHW due to the promulgation by the State Council in September 2001 on the requirement to possess a telecommunications services operating permit by all PRC telecommunications operators and the complications involved in the applications, approval and administration of such operating permits in the PRC. Consequently in December 2001, in view of equitable interests of both parties in the Agreement, BIHW and IHW revised the Agreement with effect from 1 January 2002 so that the charge basis of the consultancy fee remains the same but the amount charge by BIHW for any quarter in a year cannot be greater than the net income (income after business tax and cost of services) of IHW.

BUSINESS REVIEW *(continued)*

The significant increase in loss from the Internet-related operation resulted mainly from the impairment loss provided during the year on the Group's goodwill, carried in reserves arising out of the acquisition of both the Chinacon.net Group and the Megabit Group in year 2000 in recognition of the Group's difficulty in maintaining favourable results in the Internet-related business.

Software Development Business

In October 2001, the Group completed the acquisition of a 100% interest in Zhuhai Tianxin Business Software Limited ("Tianxin") (the "Acquisition"), a company registered in the PRC engaging in the development and sale of enterprise applications software, for an aggregate consideration of HK$48 million by the issue and allotment of 21.7 million ordinary shares.

The turnover for the software development business for the year under review amounted to HK$2,746,000 which represented two months operation subsequent to the completion of the acquisition. The loss attributable to the software development business amounted to HK$5,874,000 which is mainly contributed by the amortisation of goodwill arising from consolidation amounted to HK$4,778,000.

Outlook

In view of the present market conditions, the Group has taken a cautious approach towards business development in the Internet-related division. After due consideration, the Group has decided to focus on its manufacturing and software development business, the acquisition of which was completed in October 2001. The Group will also continue to explore other new business and/or investments that will bring a steady and recurring income to the Group.

EMPLOYEES AND REMUNERATION POLICY

At the balance sheet date, the Group employed 52 (2000: 64) staff in Hong Kong and had 718 employees (2000: 1,021) in the PRC.

The management reviews remuneration policies on a regular basis and rewards staff through fair remuneration packages and other fringe benefits, which include a contributory provident fund and medical insurance plans. In addition, the Group may also grant discretionary bonuses to eligible staff based on the Group's performance and individual merit.

Pursuant to the share options granted to certain employees of the Group on 10 July 2000, certain employees of the Group exercised their rights to subscribe for 4,850,000 shares of the Company and HK$2,852,000 was received in cash during the year.