

# Management Discussion and Analysis

This statement is provided in order to present a balanced review of the Group's operation for the year ended 31 December 2001. The following comments should be read in conjunction with the audited consolidated financial statements of the Group and related notes.

## Results

Total turnover of the Group for the fiscal year 2001 amounted to HK\$157,577,000 (2000: HK\$27,147,000), representing a substantial increase of approximately 4.8 times as compared to that recorded for the previous fiscal year. During the year, the Group successfully returned to positive ground from substantial losses for past years and recorded a gross profit of HK\$50,119,000 (2000: gross loss of HK\$81,800,000) and operating profit of HK\$20,902,000 (2000: operating loss of HK\$187,144,000). Net profit from ordinary activities attributable to shareholders was HK\$16,649,000 (2000: net loss from ordinary activities attributable to shareholders of HK\$209,659,000).

On 4 June 2001, the Group completed the acquisition of the entire interest in Dawning Information Industry Company Limited ("Dawning") for a total consideration of RMB215,000,000 (approximately HK\$201,000,000). Dawning formally became one of the Group's core business operations and constituted a major source of revenue to the Group.

In June 2001, the Group raised net proceeds of approximately HK\$190,000,000 through placing a total of 750,000,000 new shares, which were mainly applied for expansion of Dawning's production capacity and enhancement of its research and development facilities. Apart from the non-interest bearing convertible notes of HK\$100,467,290 issued for the acquisition of Dawning, the Group had no bank loans or other long term borrowings or any asset pledged as at the balance sheet date. The Group's gearing ratio (calculated on the basis of total borrowings/shareholders' equity) as at the balance sheet date maintained at a comparatively low level of approximately 0.17 (approximately 0.01 as at 31 December 2000), and cash on hand amounted to approximately HK\$213,807,000. In addition, the Group enjoys stable financial condition with no significant potential risk from fluctuation of exchange rate. Apart from the obligations and guarantees provided for in the sale of part of the apartments of La Residence with a total of HK\$29,646,000 (2000: HK\$23,679,000) and for devaluation or loss of an ophthalmology treatments business managed by the Group, the Group had no material contingent liability as at the balance sheet date.

As at the balance sheet date, the Group had a total staff of 800 (representing a substantial increase of 20 times compared to 40 for the same period last year), among which Hong Kong headquarter had a staff of 9, accounting for 1% of total, responsible for the finance, Hong Kong legal and general administrative affairs of the Group.

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## BUSINESS REVIEW

### Dawning

As a pioneer and leader in the development of a high performance computer industry in the PRC, Dawning is the only domestic UNIX/RISC server manufacturer, and is also the only domestic system integrator based on high-end servers with its own established brand name. Dawning was co-founded by its current Chairman Dr. Li Guojie, an academician and the head of the Computation Institute of the Chinese Academy of Science. Dr. Li will continue to lead Dawning's research and technical team to accomplish its proactive marketing strategy, and expand the Group's domestic and overseas market share. During the period under review, Dawning made great progress in building of its sales network, with about 30 domestic offices and more than 600 agencies established throughout major cities and provinces of the PRC.

Dawning is also the only company in the PRC that has the capabilities of producing an extensive range of different grades of servers ranging from RMB10,000-20,000 to tens of millions of RMB. Along with increasing penetration of Internet and network computers, Dawning capitalizes on its high-end server technology and its brand name to aggressively develop the market for small-scale PC servers. In December 2001, Dawning cooperated with TCL, a renowned electronic consumer products and household electric appliances manufacturer, to develop servers under the joint brand "TCL\* Dawning" targeting at education sector, and has launched "Solutions for Education Sector" tailor-made for information-based education development for primary and secondary schools.

According to the most authoritative information industry supervisory institute in the PRC—CCID Consulting Co., Ltd., Dawning was ranked No.1 and No.4 in the China IT Market Annual Report 2001-2002 for RISC servers and IA servers respectively. Dawning was also ranked No.3 in "Integrated Brands in the PRC Servers Market 2001", accounting for 17.5% of the market share and ranking in the top echelon of domestic server manufacturers.

During the period under review, Dawning recorded a turnover of HK\$128,652,000, and contributed a net profit of HK\$10,426,000 to the Group.

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## Jingke Electronic and Jingke Information

In August 2001, the Group through a wholly owned subsidiary acquired 51% equity interest in Wuhan Jingke Electronic Co., Ltd. ("Jingke Electronic"), and invested RMB8,570,000 into Wu Han Jingke Information Industry Co., Ltd. ("Jingke Information"). The Group will hold 51% of equity interest in Jingke Information upon completion of the capital injection. Jingke Electronic and Jingke Information are principally engaged in manufacturing quartz oscillators used in producing a wide range of electronic products such as timers, radio telecommunication equipment and computers.

## Mings Vision

Mings Vision Medical Development (Shenzhen) Co. Ltd. ("Mings Vision") (currently renamed as Huaming Medical Development (Shenzhen) Co., Ltd.), the Group's medical arm in ophthalmology treatments business, has witnessed an improving economic efficiency as its business fully develops. Mings Vision has allied with other domestic competitors such as Zhongshan Ophthalmology Centre of Zhongshan University in Guangzhou, Ophthalmology Research Center of the Ministry of Public Health, Shenzhen Kejian Group Co. Ltd., Kam Lik Investment Co., Ltd. as promoters to restructure Mings Vision into a joint stock limited company with a view to optimizing each party's strengths and complementing weaknesses to achieve economies of scale in ophthalmology treatments. Upon completion of the restructuring, it will have the largest ophthalmology medical network with 30 ophthalmology treatments and spectacles centers throughout the major cities in the PRC. Through the network, it will be able to further expand market share and promote business more efficiently. In addition, Mings Vision has restructured its assets and good results have been achieved.

## Property

The non-core property business held by the Group remains stable. Along with the steady recovery in Shanghai's property market, the Group disposed part of its properties during the year under review, which contributed a revenue in cash of HK\$20,149,000 to the Group. 23 units in La Residence, which is located in Zhenning Road, Jing An District, Shanghai were sold and recognized in the accounts by the year-end. In addition, the service apartments operated by the Group in La Residence recorded a satisfactory increase in rental incomes and net profit when compared with that of the year 2000.

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## Financial services

The Group's another non-core financial services business has shrunk substantially as compared to its past scale. During the year under review, there are still small parts of the business retained subject to the safety of funds which contributed a revenue in cash of HK\$2,393,000 to the Group. In addition, the Group adheres to its policy of seeking every chance to recover its bad debts, and as to its fully provided problem loans resulting from historical reasons, the Group successfully recovered part of the same which amounted to HK\$2,230,000 during the year.

## PROSPECTS

### Dawning

Driven by increasing applications of information technology in the PRC and the penetration of Internet together with the development of telecommunication technology amid global economy recovery, the Group expects that demand for servers to continue growing and eventually extend to small businesses and individuals. On the one hand, Dawning will continue to cooperate with large enterprises, institutional clients, data centers and Application Services Providers (ASP) to develop high-end server market. On the other hand, it will capitalize on its established brand name and reputation to promote functional servers in the PRC to increase market share. Dawning made the first step in the year 2001, and will maintain its strong presence as the No.1 brand domestic server manufacturer.

The joint brand "TCL\* Dawning" Educational Server launched by Dawning in cooperation with TCL has been incorporated into Guangdong's largest educational information project "Guangdong Longmen Campus Project" and will be used by primary and secondary schools within the next two and a half years in executing China's "Campus-to-Campus" strategic plan. At present, nearly 30% of the total servers output by Dawning are targeted at the education sector. Through TCL's over 20,000 sales outlets across the country, Dawning is expected to enjoy a rapid development in future.

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The construction of Dawning Mansion in Shenzhen High-tech Park invested by Dawning has already been completed and is presently undergoing interior decoration. Covering an approximate total area of 25,000 square meters, the building is 109 meters high and is expected to be put into use by August 2002. Designed in accordance with state-of-the-art features for intelligent office towers, the building will become a landmark in Shenzhen High-tech Park upon completion. Dawning plans to keep the building for its own use to house the R&D center and the Group's Shenzhen office and subsidiaries' offices, and among other matters, for the data center and exchange center jointly operated with the Shenzhen Telecommunication Bureau. As at the date of this report, basically all office space available for rental has been leased out.

The management expects Dawning's business to maintain a steady growth in 2002.

## Property

The Group will continue to realize its properties at reasonable market price.

## Jingke Information

With cash injections from the Group, Jingke Information plans to expand its production scale to achieve higher economic efficiency. Jingke Information has been granted a land of 30,000 square meters in Wuhan's Investment Zone for Taiwan Enterprises for the purpose of building plants and auxiliary facilities for "Jingke Industrial Park" totaling 13,000 square meters. On 18 December 2001, the foundation was formally laid and presently construction work for four of total seven single structures has been started. Backed by the local government, the whole project progressed smoothly and the whole park is expected to be completed in August 2002. Upon completion of Jingke Industrial Park, Jingke Information's production capability, technical level and production environment will be greatly upgraded.

As at the date of this announcement, the Group has invested approximately RMB14,400,000 in total in Jingke Information. It is expected that Jingke Information will obtain substantial increases in turnover and profit in 2002.

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## Beijing CPT

At the end of year, the Group entered into an agreement to acquire a 55% interest in Beijing CPT Bluetooth Co., Ltd. ("Beijing CPT") and recently paid approximately HK\$5,000,000 as the consideration. Established in May 2000, Beijing CPT is principally engaged in development of business-level network storage systems and the provision of professional technical advice, program designing and structural planning for finance, telecommunication, media, government and education sectors on the basis of broadband operation multimedia content service platform system. Through cooperation with Dawning and other large system integrators, Beijing CPT has accumulated rich experience in network storage solutions, system security solutions, monitoring systems and the broadband multimedia application platform.

Beijing CPT is the chief agent in the PRC for Seagate, the world known storage products manufacturer for its hi-end storage system in the television & broadcasting sector, education sector and northern region of the PRC. It is also the sole agent in the PRC of Pinnacle, the renowned leading US multimedia corporation company, in respect of its high definition non-linear editing system.

The Group shall adhere to its pragmatic approach to continue to identify investment opportunities, with a view to broadening its revenue streams and maximizing investment returns to shareholders.

By order of the Board

**Gong Hanbing**

*Executive Director & President*

Hong Kong, 26 April 2002