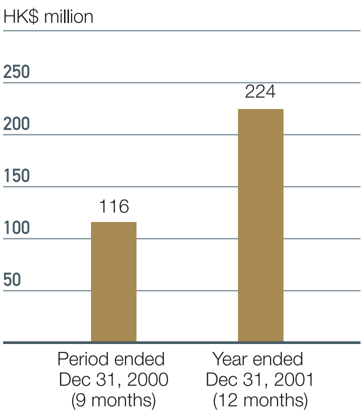
Financial Review

Financial Results

Results summary

HK$'000	(12 months) 1.1.2001 - 31.12.2001	(9 months) 1.4.2000 - 31.12.2000	% change
		(Restated)	
Turnover			
Continuing operations	173,825	110,384	+57
Discontinued operations	50,305	5,353	+840
	224,130	115,737	+94
Profit/(loss) from operating activities			
Continuing operations	(3,514)	(3,782)	-7
Discontinued operations	2,875	14,946	-81
	(639)	11,164	N/A
Finance costs	(520)	(22)	+226
Share of loss of an associate	(2,439)	–	N/A
Impairment of goodwill	–	(1,133,556)	N/A
Loss before tax	(3,598)	(1,122,414)	-100
Tax	(1,432)	(479)	+199
Net loss attributable to shareholders	(5,030)	(1,122,893)	-100

Turnover



The Company changed its accounting financial year end date from 31 March to 31 December with effect from 1 April 2000. Hence, the corresponding period covered nine months from 1 April to 31 December 2000.

On 17 December 2001, the Group completed first phase of the mobile phone operation acquisition from CCT Telecom and Haier Group Corporation ("Haier"). The first phase of the mobile phone injection involved the acquisition of the Hong Kong mobile phone company which is engaged in the sourcing of raw materials and export of mobile phones. The second phase of the mobile phone transaction involving the acquisition of the Qingdao joint venture which is responsible for manufacturing and domestic distribution, has not yet been completed at year end.

Turnover increased 94% to approximately HK$224 million for the year ended 31 December 2001. The increase in turnover of the continuing operations was attributable to the organic growth of the baby care product business and contribution from the mobile phone operation. The turnover of the discontinued operation was derived from the multimedia business which was sold to CCT Telecom in December 2001.

The baby care products operation and the mobile phone business were profitable. Due to the loss of the internet portal and content operations, the Group reported a net loss of approximately HK$5.0 million in the year 2001.

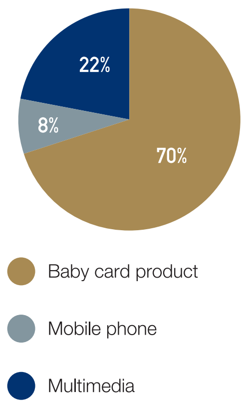
As a result of adoption of Interpretation 13, the company has performed an assessment of its assets including the goodwill previously eliminated against reserve. As a result, the profit of the corresponding period was restated by charging a provision of HK$1,134 million for impairment of goodwill arising from the Internet portal and content business, which ceased operation as a result of change in business focus. The restatement has turned the corresponding period into a loss of HK$1,123 million. This restatement has no effect in the shareholders' equity brought forward as the goodwill has already been eliminated against reserve in the prior period.

Analysis by business activities

HK$'000	Turnover 12 months ended 31 Dec 2001	Turnover 9 months ended 31 Dec 2000	Profit/(loss) from operating activities 12 months ended 31 Dec 2001	Profit/(loss) from operating activities 9 months ended 31 Dec 2000
Baby care product	155,476	109,254	7,488	3,454
Mobile phone*	18,327	–	5,773	–
Multimedia	50,305	5,353	2,775	14,860
Corporate and others	22	1,130	(16,675)	(7,150)
Total	224,130	115,737	(639)	11,164

** Acquired on 17 December 2001.*

2001 Turnover by business activities



During the year, baby care product business continued to contribute a major proportion of turnover and profit. The newly acquired mobile phone business immediately contributed approximately HK$18 million in turnover and HK$6 million in profit in less than a month since the Group's acquisition. The revenue was generated from sourcing of raw materials, export of mobile phone and provision of technical and management services in connection thereof.

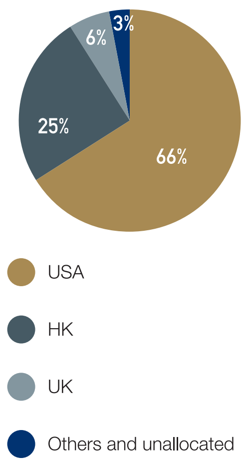
The discontinued multimedia business, achieved a turnover of HK$50 million and recorded a profit of approximately HK$3 million in the current year. A profit of HK$15 million was reported in the corresponding period due to an investment holding gain.

The operating profit was offset by the loss arising from the ceased internet operations included under the corporate items. As a result, the Group reported a net operating loss of HK$639,000.

Analysis by geographical region

HK$'000	Turnover 12 months ended 31 Dec 2001	Turnover 9 months ended 31 Dec 2000	Profit/(loss) from operating activities 12 months ended 31 Dec 2001	Profit/(loss) from operating activities 9 months ended 31 Dec 2000
USA	147,145	105,131	7,087	3,324
HK	54,944	8,114	3,772	14,860
UK	12,692	–	3,998	–
Others and unallocated	9,349	2,492	(15,496)	(7,020)
Total	224,130	115,737	(639)	11,164

2001 Turnover by geographical region



North America continued to be the major market for the baby care products business and accounted for 66% (2000:91%) of total turnover during the year. The turnover in Hong Kong accounted for 25% (2000: 7%) was derived from the multimedia business and mobile phone business. Export of mobile phones to the UK accounted for 6% of the turnover.

FINANCIAL POSITION

Consolidated balance sheet summary

HK$'000	2001	2000	% Change
Non-current assets	68,806	58,830	+17
Goodwill	1,446,018	–	N/A
Current assets	546,569	205,894	+165
Total assets	2,061,393	264,724	+679
Current liabilities	203,827	25,788	+690
Non-current liabilities	1,166	1,488	-22
Total liabilities	204,993	27,276	+652
Net Assets	1,856,400	237,448	+682

Total assets

Total assets changed substantially due to (i) the first phase acquisition of the mobile phone business which brought along an increase in current assets in form of trade and bills receivable and a large amount of goodwill, (ii) placing of shares for cash and (iii) the disposal of the multimedia business.

Total liabilities

The increase in total liabilities was attributable mainly to the addition of trade and bills payables included in current liabilities derived from the first phase acquisition of the mobile phone business.

Net tangible assets

HK$'000	
Net Assets	1,856,400
Less: Goodwill	(1,446,018)
Net Tangible Assets as at 31 December 2001	410,382
Add: Adjustment for subsequent events already disclosed	
Net cash raised from the second placing of 368,000,000 ordinary shares on 16 January 2002	107,640
Profit on disposal of baby care products business completed on 4 March 2002	2,000
Adjusted Net Tangible Assets	520,022

Net asset value per share

HK$'000	2001	2000	% Change
Net assets	1,856,400	237,448	+682
Number of shares in issue (in thousand)	8,569,966	1,548,916	+453
Net assets value per share (HK$)	0.22	0.15	+47

The substantial increase in number of shares was attributable to the issue of shares for the first phase acquisition of the mobile phone business and the placing of shares for cash. Despite a large capital increase, there was no dilution on net assets value per share. On the contrary, the net assets value per share increased 47% to HK$0.22 as at 31 December 2001.

Capital Structure and Gearing Ratio

HK$'000	As at 31 December 2001 Amount	Relative %	As at 31 December 2000 Amount	Relative %
Trust receipts bank loans	37,380	2	–	–
Equity	1,856,400	98	237,448	100
Total capital employed	1,893,780	100	237,448	100

The Group continued to maintain a strong financial position. The total debt to total capital employed was only 2% (2000: Nil%). The Group had banking facilities totaling approximately HK$202 million of which approximately HK$68 million had been utilized.

As at 31 December 2001, the Group had bank and cash balances of approximately HK$373 million as compared to HK$28 million as at 31 December 2000. The increase in cash balance was derived from cash generated from operations and completion of the first placing of 1,021,000,000 shares on 27 December 2001. The second placing of 368,000,000 shares, completed on 16 January 2002, raised another HK$108 million in cash, net of placing expenses. Such a large pool of cash and available banking facilities provides the Group with sufficient resources for expansion and opportunities for acquisition.

Treasury management

The Group maintains a conservative approach to cash management and risk controls. The Group's treasury activities are centralized. More than 90% of the Group's receipts and payments are in Hong Kong dollars and United States dollars. Cash is generally placed in short term deposits denominated in either Hong Kong or United States dollars. The Group's borrowings are principally on a floating rate basis. The Group does not have any significant foreign currency or interest rate risk.

OTHER INFORMATION

Employees and remuneration policy

The total number of employees in the Group as at 31 December 2001 was 114 (2000: 320).

Remuneration packages are normally reviewed annually. Apart from salary payments, other staff benefits included provident fund, medical insurance and performance related bonus. Share options may also be granted to eligible employees of the Group. As at the balance sheet date, there were 10.4 million (2000: 70 million) options outstanding.

Pledged of assets

As at 31 December 2001, certain of the Group's assets with net book value of HK$2.8 million (2000: HK$8.1 million) and time deposits of HK$2.6 million (2000: HK$2.5 million) were pledged to secure general banking facilities granted to the Group.

Contingent liabilities

Except for corporate guarantees given to banks in connection with facilities granted to subsidiaries by the Company of approximately HK$202 million (2000: Nil), the Group has no other contingent liabilities as at the balance sheet date.

Acquisition and disposal of material subsidiaries and associates

During the year, the Group acquired the entire interest in Foreland Agents Limited and Haier CCT (H.K.) Telecom Co., Limited, which is engaged in mobile phone business. The consideration was satisfied by issue of consideration shares, issue of loan note and disposal of the Group's multimedia business.

On 11 December 2000, the Group entered into an agreement with two independent third parties pursuant to which the Group agreed to acquire the entire issued share capital of Sheen Culture Program Investment Limited ("Sheen Culture") for a consideration of HK$40,000,000. Sheen Culture was principally engaged in the development and distribution of TV programs.

The transaction was subsequently terminated on 21 June 2001 as a result of the Group's decision to divest the multimedia content business.