

## BUSINESS REVIEW

In the current year, the Group is principally engaged in investments in the telecommunication and internet related business, multi-media business, properties and dairy farm operation. Details of the operation of the Group's business are as follows:

### ***Real Estates***

The rental income for the current year decreased significantly from HK\$11,128,000 in the previous year to HK\$7,361,000. The decrease is mainly due to disposal of an industrial block in Kwun Tong in April 2001 and the downward trend of the occupancy rate and unit rental of industrial buildings due to the continuous downturn of the local economy. After the September 11 tragedy in the US, the value of industrial blocks continued to drop. The valuation deficit and impairment charge for the current year is HK\$41,122,000. In order to retain the existing tenants and attract potential tenants, which in result can help to increase the market value of the buildings due to higher occupancy rate and rental income, a professional property management company was appointed to improve the condition of the industrial buildings and the service quality.

The industrial block in Kwun Tong was disposed of at a consideration of HK\$20,380,000 which helped the Group to reduce the bank borrowings and also the finance cost. In addition, a construction site in Shanghai, which was fully provided for in prior years, was disposed of and resulted a gain of HK\$1,369,000 for the current year.

### ***Wanbao Telecom***

The total investment of the Group in Wanbao Telecom is HK\$553,000. Due to emergence of new competitors and the dramatic price reduction in the IDD call market, the Board of Directors had decided to discuss with other shareholders of Wanbao Telecom for its future development before further investment in this project. The Board of Directors decided to withdraw its commitment which has been authorized in prior years in respect of this project and the Group has not shared any results of Wanbao Telecom since 1st April, 2001.

### ***Multimedia IT Education Joint Venture***

The joint venture project to produce and market multimedia IT education software targeted at the high school in Mainland China was terminated in March 2001 due to changes in market conditions. The liquidation of the joint venture company had commenced and the capital contributed by the Group will be refunded once the deregistration completed. Since the capital contributed by the Group are credited to the bank accounts which are controlled by the Group only, management do not anticipate any recoverability problem of the capital.

In respect of the deposits of HK\$17 million to the joint venture partner, which was fully provided for and guaranteed by the major shareholder for the recovery of the full amount, the major shareholder had started actions to collect the balance but no progress in recovering such balance for the current year.

### ***Dairy Farm Operation***

A subsidiary run a farm which engaged in sales of dairy products in New Zealand. The farm was initially financed by the loan from group company and bank loan. After years of operation, the farm was self-subsisted and no further funding from the group company required. In the current year, the farm generated a turnover of HK\$3,103,000 and an operating profit of HK\$1,402,000. However, as farm operation is not our target field to develop, management has decided to dispose of the farm and focus the resource on the telecom-related business.

## **PROSPECTS**

In May 2002, the Group acquired Joy Heaven Inc. which mainly engaged in the business of telecommunications software development and system integration. According to Software & Information Industry Association, China's IT manufacturing sector generated approximately US\$170 billion of gross output value in 2001, representing an increase of approximately 27% from 2000 and telecom revenue hit approximately RMB367 billion in 2001, representing an increase of approximately 24% from 2000.

In view of the positive telecommunications market development in Mainland China and strong and stable clientele and expertise of Joy Heaven Inc. in the telecommunications software development and system integration field, the Group will further explore business opportunities to participate in other telecommunications value added service business in Mainland China to further expand its core business.

## **EMPLOYEES**

As at 31st March, 2002, the Group had a total of 16 employees of whom 11 are working in Hong Kong and 5 in Mainland China. The Group regularly reviews the remuneration of its employees in line with the market and the local economic situation. The Group has also set up a share option scheme pursuant to which employees of the Group can be granted options to subscribe for the Company's shares.

## FINANCIAL SUMMARY

Total turnover of the Group for the year under review amounted to HK\$10,464,000 (2001: HK\$11,713,000), showing a decrease of 10.7% as compared to that recorded for the previous financial year mainly due to decrease in rental income as a result of disposal of an industrial block in Kwun Tong in April 2001 and the decrease of occupancy rate in industrial buildings due to continuous deteriorating economy in Hong Kong. After deducting the cost of sales and services, the Group had a gross profit of HK\$7,033,000 (2001: HK\$8,211,000), showing a decrease of 14.3% of the previous financial year.

The increase of operating loss from HK\$50,124,000 in previous year to HK\$74,935,000 in current financial year are mainly due to the combined effect of further deficit arising on revaluation of investment properties of HK\$40,646,000 and impairment of leasehold and buildings of HK\$476,000 as a result of September 11 tragedy in the United States and there was an exceptional gain of HK\$37,995,000 resulted from disposal of a subsidiary in the previous period while no such income for this period.

The outstanding bank loans as at 31st March, 2002 was HK\$30,415,000 of which HK\$28,374,000 was borrowed in Hong Kong and HK\$2,041,000 was borrowed in New Zealand. In August 2001, the Group successfully refinanced the bank loans in Hong Kong. The outstanding bank borrowings in Hong Kong as at 31st March, 2001, amounted to HK\$55,456,000, was fully repaid with the sale proceeds from disposal of the industrial block in Kwun Tong and the new loan drawn in August, 2001. All fixed charges on all receivables, revenues, investments, leasehold properties and floating charges on all other assets of the Group in Hong Kong previously provided to secure the old loans were released. The new loan is a 15 year term loan secured by two leasehold properties with carrying value of HK\$62,000,000 situated in Hong Kong. The borrowing in New Zealand is secured by a freehold land and building with carrying value of HK\$4,974,000 situated in New Zealand. The Group's gearing ratio calculated by all long-term and short term bank borrowings over the shareholders' funds was decreased from 0.3 to 0.26. There is no significant exposure to foreign exchange fluctuation as the Group's borrowings are primarily denominated in Hong Kong dollars.

At 31st March, 2002, there was no capital commitment. Except for the pending legal litigations, the only outstanding contingent liability was a guarantee given in lieu of utility deposits amounted to HK\$200,000. There was no change in the status of the litigation since last year.

The Group's financial position was solid and healthy. The working capital as at 31st March, 2002 was HK\$32,786,000 in which the bank balances and cash amounted to HK\$20,115,000. Together with unutilized banking facilities of HK\$10,000,000, the Group is able to satisfy its working capital requirements through its internally generated cash flows and existing banking facilities.