

Management Discussion and Analysis

Operation review

During the period under review, the principal activities of the Group are the provision of business application services and financial information, and property investment and development.

Web site operation

The Group operates more than 30 branch offices in China, providing internet application services including design and production of corporate web sites, development of IT solutions for clients' operations, registration of domain names, provision of e-mail systems, and data centre services to enterprises. Since September 2001, the Company has continued to further diversify its products range into the provision of other online application services to clients, and has started to manage the total software requirement for clients both onsite and network basis. Such moves enable the Group to broaden the revenue base.

During the year, this division recorded a revenue of HK\$129 million and a segment profit of HK\$12 million. In view of the continuous strong demand for web site development and IT solution by most small to medium enterprises in China, the management is optimistic about its prospects and is expected to further expand such operations in order to capitalize on this rapidly growing market in China.

Financial information provision

During the year, this business segment recorded a revenue of HK\$39 million and a segment loss of HK\$3 million. In order to take the full advantage of both of our existing customer base and the liberalization of the securities industry in China, the Company intends to participate in the provision of securities trading platform for brokers and other corporate clients in China so as to broaden our revenue base. Given the Group's strong technical support and the competitive advantage in the financial market in China, the management believes we will achieve outstanding performance in its respective business areas.

South Sea Holding Company Limited ("South Sea", HKSE code 680)

South Sea, an approximately 67.71% owned subsidiary of the Company, mainly engages in the property development and investment in China, and manufacturing and marketing of consumer electronic products. Subsequent to the completion of a scheme of arrangement with creditors of a subsidiary of South Sea, the trade payables of such subsidiary have been eliminated significantly resulting in a greatly improved financial position. Turnover recorded during the year was HK\$215 million and a net profit of HK\$52 million.

Other businesses

The Group continues to make investments in China in a move to explore more business opportunities. However, the scale of these operations remains insignificant and with no profit contribution during the period under review.

Prospect

The Group believes China market will continue to provide significant opportunities for the expansion of various subsidiaries. The Group has employed teams of engineers and scientists who are the foundation of the Group's technical capabilities while the professional sales and services personnel are the backbone of advancement of the Group's businesses. The Group will continue to strive for excellence with these two

Management Discussion and Analysis

pillars of professionals, and make sure our growth is consistent with the market. The management deeply believes the current success of operations in China will continue in the years ahead.

FINANCIAL REVIEW

Turnover during the period decreased marginally to HK\$468 million from last year's HK\$484 million and a net loss of HK\$32 million (2001: net profit of HK\$16 million) was recorded. Such loss was mainly attributable to the revaluation of several properties in both Hong Kong and China and amortization of goodwill from some of our previous investments. The net assets value of the Group was HK\$2,683 million, representing a value of HK\$0.19 per share.

In August 2001, the Company entered into an underwriting arrangement with its substantial shareholders for the placement of up to HK\$1,000 million convertible notes to improve the liquidity of the Group. As a result, 8,000 million new shares of the Company were subsequently issued upon conversion of the notes. On 30 October 2001, the Company entered into a subscription agreement with independent third parties in respect of the issue of HK\$200 million convertible notes. All the convertible notes have been issued and converted into 2,000 million new shares of the Company. All of the proceeds of these convertible notes were used to reduce debts and as working capital of the Group.

The Group's gearing ratio was reduced from 45% to 44% due to the enlarged capital base of the Company.

Liquidity and financial resources

As at 31 March 2002, the Group aggregate bank borrowings increased to HK\$964 million (2001: HK\$639 million) and no convertible notes issued by the Company were outstanding (2001: HK\$200 million). The increase in bank borrowings is due to consolidation of the results of the subsidiaries acquired during the year.

As at 31 March 2002, the Group's credit facilities were supported by the following major assets:-

- (1) Fixed assets with the net book value of HK\$500 million;
- (2) Pledged of listed shares with market value of approximately HK\$138 million; and
- (3) Charge over land held for development and all its sales proceeds of land lot No. K708-5 at Liu Wan, Shekou, PRC.

The Group's contingent liabilities at 31 March 2002 were HK\$196 million due to the guarantees given in connection with credit facilities.

EMPLOYEES

As at 31 March 2002, the Group had 3,718 employees (2001: 2,800), of which 97 were based in Hong Kong, 3,606 were based in the PRC and 15 were based in overseas. The salaries and allowances of employees for the year ended 31 March 2002 was about HK\$85 million (2001: HK\$71 million).