

# Chairman's Statement

Dear Shareholders,

On behalf of the board of directors (the "Directors") of the Company, I am presenting the report on the operations and other aspects of the Group for the financial year ended 31 March 2002.

## **Financial results**

Turnover of the Group for the year ended 31 March 2002 was HK\$287,000 representing approximately 96% decrease as compared to that of the year 2001. The Group recorded a net loss attributable to shareholders of HK\$347,920,000 for the year ended 31 March 2002 as compared to a net loss of HK\$564,070,000 of the year 2001.

## **Dividends**

No interim dividend was paid during the year (2001: Nil). The Directors do not recommend the payment of a final dividend in respect of the year (2001: Nil).

## **Review of operations**

During the year, the plan for phased development of the development site located at Jiangsu Province of the People's Republic of China (the "PRC") (the "PRC Land") was approved by the local authorities and construction work was commenced during the year. The Group has reviewed the valuation of the PRC Land and has made provision for the impairment in value of HK\$20,000,000.

Amid the pervasive pessimism in the stock markets in the region, the Group has reviewed its investment portfolio and has been prudent in measuring the portfolio's fair value by making a provision for the impairment in value of HK\$10,889,000.

China Online (Bermuda) Limited ("China Online"), an associated company of the Group, has recorded a turnover of HK\$2,339,466,000 and a net loss attributable to shareholders of HK\$717,254,000 for its fiscal year ended 31 December 2001. China Online's investment portfolio has suffered from the declines in values of the stock markets attributable to the slowing down of the local and global economies, particularly in the USA in the latter part of its fiscal year.

The Group has, through China Online, participated in the following businesses:-

- the mobile handset distribution business in Hong Kong. The sluggish economic and consumer market conditions have significantly affected the operation. However, better performance has been achieved in the second half of its fiscal year with the launching of new mobile handset models, well-planned marketing programs and the success in extending the product portfolio to trendy product lines;
- the mobile handset and accessories distribution business in the PRC and such operation has recorded a turnover of HK\$161,695,000 in its fiscal year;
- the intelligent building system integration operation in the major cities of the PRC; and
- as at 31 December 2001, China Online has a long term investment portfolio comprising 300,618,000 shares in Millennium Group Limited ("MGL"), 250,180,000 shares in Sun Hung Kai & Co. Limited ("SHK & Co"), and 20,000,000 shares in Takson Holdings Limited ("THL"), representing approximately 21.7%, 16.6% and 5.1% in the issued share capital of MGL, SHK & Co and THL respectively.

In view of the subsequent realization of the Group's long term investment in China Online after the year end date, details of which are more described in the below "Prospects" section, the Group's interest in China Online were stated at the expected net realizable value by making a provision for the impairment in value of HK\$171,231,000.

### ***Liquidity and financing***

The Group's non-current assets comprised mainly of the PRC Land held for development of HK\$60 million and interest in associates of about HK\$271 million. These non-current assets were principally financed by shareholders' funds and interest-bearing borrowings. As at 31 March 2002, the Group has net current liabilities of about HK\$9 million.

As at 31 March 2002, the Group's outstanding borrowings amounted to approximately HK\$187 million, consisting of secured loan repayable on demand of about HK\$1 million, unsecured loan repayable within one year of HK\$19 million, and secured loan repayable in the second year of HK\$167 million.

The gearing ratio of the Group was approximately 124.5%, calculated on the basis of the Group's net borrowings (after deducting cash and bank balances) over shareholders' funds at the year end date.

The Group has little foreign exchange exposure and the Group's borrowings were all denominated in Hong Kong Dollars.

### ***Charge on group assets***

As at 31 March 2002, the general loan facilities of the Group were secured by the pledge of 3,185,740,000 shares in China Online (approximately 34.31% of the issued share capital of China Online), all of the warrants of China Online held by the Group, corporate guarantees executed jointly and severally by

certain subsidiaries of the Company and shares mortgages of certain subsidiaries of the Company that are beneficial owners of the PRC Land.

### ***Contingent liabilities***

There is no contingent liability as at the year end date except the corporate guarantees given by certain subsidiaries of the Company as stated in the above "Charge on group assets" section.

### ***Prospects***

Subsequent to the balance sheet date and during the period from April 2002 to July 2002, the Group has realised 495,452,000 shares in China Online representing approximately 5.34% of the issued ordinary shares of China Online for total consideration of approximately HK\$23,452,000.

It was announced on 29 April 2002 that the Group has entered into a conditional sale and purchase agreement which was subsequently amended by various supplemental agreements to realise 2,690,288,000 shares in China Online representing approximately 28.97% of the issued share capital of China Online, through the disposal of its wholly owned subsidiary, Vigor Online Offshore Limited, to an independent third party (the "Purchaser") for a consideration of HK\$269,028,800 in cash (the "Agreement"). The Company and the Purchaser had entered into a supplemental agreement to extend the longstop date of the Agreement to 19 August 2002 to allow more time for making arrangement for the fulfillment of the conditions precedent contained in the Agreement. As at the date hereof, the conditions precedent contained in the Agreement have not yet been fulfilled.

The realization of the Group's long term investment in China Online would enable the Group to reduce its indebtedness and to concentrate its resources on strengthening and developing its businesses.

### ***Employees***

Employees' cost (excluding directors' emoluments) amounted to approximately HK\$1,542,000 (2001: HK\$2,239,000) for the year. The Group ensures that the pay levels of its employees are competitive and employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system.

### ***Appreciation***

I would like to take this opportunity to extend my thanks to fellow directors and the staff members of the Group for their hard work, loyal service and continuing support during the financial year then ended.

**Chiu Tao**

*Chairman*

Hong Kong, 29 July 2002