Management Discussion and Analysis

Business Review

For the year under review, the Group recorded a consolidated turnover of HK$46.6 million, representing a drop of 86.1% from HK$336.5 million in the previous year, and a net loss of HK$190.4 million.

During the year, the construction industry was confronted with grave challenges in its operating environment. Dampened by the September 11 terrorist attack in the United States and the global economic slowdown, the local economy was experiencing hard times, as evidenced by the high unemployment rate. Demand for residential units remained stagnant. Sluggish market sentiment, together with severe competition in the construction industry, put severe downward pricing pressure on the Group's marble and granite business. Turnover from wholesaling of marble and granite products and marble fittings decreased 74.4% to HK$27.3 million, while turnover from provision of installation services for marble and granite products decreased 82.1% to HK$15.9 million. In addition to the lacklustre property market conditions, the decline in the turnover from wholesaling of marble and granite products, marble fittings and provision of installation services for marble and granite products was also attributable to the sale by the Group in September 2001 of its entire interests in Perfect Marble Company Limited and Stone Haven Group Limited, the Company's indirect wholly owned subsidiaries that engaged principally in the trading and provision of installation services for marble and granite products, and marble fitting construction work.

Following the burst of the technology boom, the Internet industry went into a period of gradual consolidation. However, the operating environment of the Internet industry remained difficult. Revenues from information technology services dropped 61.9% to HK$3.4 million. Share of loss of associates for the year amounted to HK$36.9 million and could be mainly attributed to the Group's share of consolidated loss from Cyber On-Air Group Company Limited (formerly known as hkcyber.com (Holdings) Limited), and another associate that invested in the Internet website www.hkstock.com.hk. Cyber On-Air Group Company Limited, in which the Group had a 27.50% stake as at 31 March 2002, is a company listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited, which acquired (the "Acquisition") Cyber On-Air Group Limited in May 2002. Prior to the Acquisition, Cyber On-Air Group Company Limited was an on-line multimedia content provider and it is currently a provider of broadband, wireless, multimedia and Internet services.

Taking a prudent approach, the Group made an allowance for bad and doubtful debts of HK$17.5 million during the year. The Group also recognised an impairment loss on goodwill of HK$20.3 million and an allowance of HK$20.7 million on amounts due from associates with respect to the Group's investment in the Internet and information technology businesses.

During the year, the Group recognised a loss of HK$12.3 million on the disposal of certain fixed assets of the Group's Internet business and as a result of the closure of the Group's marble and granite processing factory in Qixing, the People's Republic of China. The Group also recognised an impairment loss of HK$29.8 million on the property, plant and equipment of the Group's factories in the People's Republic of China.

Management Discussion and Analysis

Liquidity and Financial Resources

As at 31 March 2002, the Group had net current liabilities of HK$24.6 million (31 March 2001: net current assets of HK$94.2 million) and a current ratio of 0.5 (31 March 2001: 2.2). Cash and bank balances as at 31 March 2002 were HK$10.6 million (31 March 2001: HK$6.7 million). Gearing ratio, expressed as a ratio of total liabilities and minority interests to shareholders' funds, was 0.7 as at 31 March 2001. No calculation of gearing ratio as at 31 March 2002 was made as there was deficiency of shareholders' funds.

As at 31 March 2002, the Group's short term unsecured bank loans amounted to HK$21.2 million (31 March 2001: HK$22.5 million), bank overdraft amounted to HK$9.2 million (31 March 2001: HK$7.6 million) and bills payable and import loans amounted to HK$2.2 million (31 March 2001: HK$7.9 million), which were denominated in Hong Kong dollars and United States dollars. All these borrowings were interest bearing and carried floating interest rates. Cash and cash equivalents were mainly held in Hong Kong dollars and Renminbi. The Group had no significant exposure to foreign exchange rate fluctuations.

The Group is currently in breach of a covenant in respect of certain bank borrowings of HK$31,390,000 as at 31 March 2002. The Group is negotiating with the bank to restructure these borrowings.

Contingent Liabilities

As at 31 March 2002, the Group's contingent liabilities were HK$19.5 million (2001: HK$22.8 million), representing outstanding performance bonds in respect of contract works and other corporate guarantee in lieu of rental payment.

Employees and Remuneration Policies

The Group had approximately 120 employees as at 31 March 2002. The Group's remuneration policies are in line with prevailing market practices and are formulated on the basis of the performance and the experience of the employees. Training is also provided to improve the calibre of the staff.

The Company maintains a share option scheme, pursuant to which share options have been granted to directors and senior executives to provide them with incentives in maintaining the growth of the Group.

Management Discussion and Analysis

Prospects

In view of the uncertain outlook of both the United States and Hong Kong economy, the Group expects that both the global and local economy will not be able to regain any significant momentum in the short run. As a result, the construction and the Internet industries are expected to remain volatile and highly competitive. To counter these challenges, the Group has administered a series of stringent cost control measures to enhance its operational efficiency. The Group has streamlined its marble and granite cutting operations to reduce staff costs and overhead expenses. The Group's marble and granite processing factory in Qixing has ceased operation during the year. Furthermore, the Group has been exploring new business opportunities that will generate revenues and have high growth potentials. As stated in the announcements of the Company dated 30 May 2002 and 7 June 2002, the Company has been in negotiations with an independent third party in relation to a possible acquisition of pharmaceutical-related assets from that party and/or a possible fund raising exercise of the Company which may involve placing of new shares of the Company. Negotiations with that party are still underway and no terms have been finalized. Further details are contained in another announcement of the Company dated 25 July 2002. Through imposing cost-cutting measures and exploring promising opportunities, the Group hopes to achieve better growth for the Company and better returns for the shareholders.

APPRECIATION

On behalf of the Board, I would like to extend my sincere thanks and appreciation to all our staff for their hard work and commitment and to our bankers, customers, suppliers and shareholders for their continued support.

By Order of the Board
To Chi
Executive Director

Hong Kong, 25 July 2002