## FINANCIAL RESULTS

The consolidated result of the Group for the financial year ended 31 December 2002, which amounted to a loss of HK$115 million. This represents an improvement of 91% as compared to the corresponding period for the previous financial year. The losses incurred for the year are mainly due to the following:

(i) The impairment of goodwill arising from the acquisition of Zhuhai Tianxin Business Software Development Limited in 2001 which amounted to HK$31 million.

(ii) The penalty charges amounted to HK$11 million was incurred as a result of the early redemption notice issued by the 3% Convertible Notes holders in March 2002 on occurrence of the triggering event as disclosed in the Company's announcement dated 15 May 2002.

(iii) The impairment in value of the Group's fixed assets, in particular the Internet sector, amounted to HK$35 million which included the impairment of optical fiber amounted to HK$28 million.

A significant improvement in the result of the Group as compared to last year was due largely to the fact that in 2001, the Group provided an one off impairment losses on the goodwill carried in reserves arising from the acquisition of the Chinacon.net Group and the Megabit Group in 2000 which amounted to HK$1,131 million.

Turnover for the year ended 31 December 2002 amounted to HK$90 million, which represented a decreased of 28% as compared to the same period for last financial year. The dropped in turnover is largely attributed to:

– repercussion of September 11 event which greatly affected the turnover of the manufacturing business during the first half of the year; and

– no consultancy fee was charged for the year 2002 as the progress of the Intelligent Building was stymied by the difficulty to secure the telecommunications service operating permit which is required under the new telecommunications rule.

At the balance sheet date, the Group's net assets were HK$43 million (2001: HK$79 million). The drop in net assets of approximately HK$36 million as compared to last year is the net impact of the Group's capital raising exercise during the year which increase net asset by approximately HK$73 million, set off against the Group's operating loss for the year amounted to approximately HK$43 million and the impairment of the Group's fixed assets, in particular the optical fibre and the Group's goodwill arising from the acquisition of Zhuhai Tianxin Business Software Development Limited which in aggregate amounted to approximately HK$66 million.

## FINAL DIVIDEND

The directors do not recommend the payment of a final dividend for the year ended 31 December 2002 (2001: HK$ Nil).

## THE GROUP'S LIQUIDITY AND CAPITAL RESOURCES

Pursuant to the Subscription Agreement on the issue of US$10 million of the 3% Convertible Note ("3% Notes") and 8,150,366 Warrants in August 2001, during the year under review, an aggregate of approximately US$0.5 million of the 3% Notes and approximately US$2,400 as interests, were converted into 6,050,461 ordinary shares of the Company.

On 26 June 2002, the Group completed the Rights Issue to qualifying shareholders of 587,902,263 rights shares on the basis of one rights share for every two existing shares held on record. The net proceeds received from the rights issue amounted to approximately HK$73 million were used mainly for the repayment of the outstanding amount due to the 3% Notes holders. This includes the outstanding principal amount of HK$61 million and the additional finance charges amounted to HK$11 million incurred as a result of the early redemption notice issued by the 3% Notes holders upon the occurrence of a triggering event in March 2002, whereby the Closing Price of the shares of the Company for seven consecutive trading days after the issue of the 3% Notes were below HK$0.65.

At the balance sheet date, the Group had cash and bank deposits of HK$5.4 million (2001: HK$84 million) which includes foreign currency deposits of US$0.4 million (2001: US$9.7 million) and RMB0.5 million (2001: RMB0.3 million).

The Group's consolidated net borrowings dropped from last year's figure of HK$116 million to HK$25 million, resulting in a gearing ratio of approximately 58% (2001: 147%) which is expressed as a percentage of the Group's net borrowings over shareholders' equity of HK$43 million as at 31 December 2002 (2001: HK$79 million).

The amount of debt due within one year at the balance sheet date amounted to HK$30 million (2001: HK$200 million). The significant dropped in the Group's loan balance as compared to last year were clearly due to the repayment of loans that expired during the year.

The table below shows the type, maturity, currency and interest rate profiles of the Group's bank and other borrowings at the balance sheet date.

| | **2002** | 2001 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **DEBT MATURITY PROFILE** | | |
| Within one year | **30,035** | 199,506 |
| Within two to five years | **–** | – |
| Total | **30,035** | 199,506 |
| **INTEREST RATE PROFILE** | | |
| Unhedged floating | **13,550** | 45,460 |
| Fixed | **16,485** | 154,046 |
| Total | **30,035** | 199,506 |
| **NATURE OF DEBT** | | |
| Secured bank loan | **–** | 76,238 |
| Secured promissory notes | **–** | 13,088 |
| Secured other loans | **9,056** | 8,037 |
| Convertible notes, unsecured | **–** | 71,243 |
| Unsecured other loans | **20,979** | 30,900 |
| | **30,035** | 199,506 |
| **CURRENCY PROFILE** | | |
| Hong Kong Dollars | **20,050** | 50,488 |
| Renminbi | **9,056** | 82,804 |
| US Dollars | **929** | 66,214 |
| | **30,035** | 199,506 |

At the balance sheet date, the Group's secured borrowings amounting to HK$9 million (2001: HK$97 million) which were secured by a legal charge on certain leasehold land and buildings of the Group situated in the PRC with carrying value of approximately HK$18 million (2001: HK$16 million) at the balance sheet date. The other assets previously pledged to secure borrowings outstanding at 31 December 2001 were discharged upon full repayment of the borrowings during the year under review.

Despite that the Group sustained recurrent losses and had net current liabilities of HK$43 million at 31 December 2002, the directors of the Company are of the opinion that the Company and the Group will be able to meet their obligations as and when fall due after taking into account the following:

(i) an unsecured revolving loan facility of HK$50 million made available to the Company from a financial institution; and

(ii) continual financial support received from the ultimate holding company.

The directors believe that the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements.

## EXPOSURE TO FLUCTUATION IN EXCHANGE RATES, INTEREST RATES AND RELATED HEDGES

To manage the risk associated with an uncertain market environment, the Group pursues a funding strategy, using equity as far as possible to finance long-term investments.

The Group's borrowings and cash and cash equivalents are primarily denominated in Hong Kong dollars, Renminbi and US dollars. The Group does not hedged against foreign exchange risk, as the management believes the Hong Kong dollar will remain pegged to the US dollar in the foreseeable future and the exchange risk associated with the Renminbi is expected to be minimal.

The interest rates profile of the Group's borrowings comprise a mixture of fixed and floating rates. The Group does not hedged against interest rates risk as the management does not expect the impact of any fluctuation in interest rates to be material to the Group.

## BUSINESS REVIEW

The Group's significant investments are investments in subsidiaries of which their performance during the year under review and their future prospects have been grouped according to their respective segments.

During the year under review, there are no significant changes in the Group's investments.

### Manufacturing Business

For the year ended 31 December 2002, the manufacturing business unit continued to engaged in the manufacture of personal healthcare products which included hair clippers, shower related products and electronic toothbrushes, amongst others.

For the year under review, the Group's turnover derived from the manufacturing business unit amounted to HK$78.7 million, a 15% decrease from the previous year. The dropped in sales was a repercussion of the September 11's crisis which caused the unsatisfactory sales performance in the first half of the year. In the second half of the year, the manufacturing business unit receives significant increased in sales order, mainly for hair clippers and electronic toothbrush. This increased was directly due to the US economy recovery, which boosted our customer's order. Additionally, with the increased in new customer base, mainly from the healthcare products, our Manufacturing Business Unit took a sweeping turn for the better during the second half of the year. In effect, this increased also helps to mitigate the dropped in sales suffered in the first half of the year.

To further strengthen the manufacturing business unit, the following changes were made during the year with the intention to enhance the competitiveness of the healthcare products:

(a) The introduction of a new management team which includes a new managing director and a new general manager for the factory in Dongguan.

(b) Review the production process which includes adding of new machineries to enhance production efficiency and cost savings.

(c) Place significant emphasis on the research and development for new products and enhance the quality of existing products.

Results from operation improved by 74% to a loss of HK$2.0 million as compared to HK$7.7 million recorded in the corresponding period last year. The improvement has been noted to be mainly due to the upward revaluation of the Group's land and building in Dongguan amounted to HK$2.4 million as compared to a deficit in revaluation of the same property last year amounted to HK$2.6 million.

***The Internet-related Business***

The Internet business unit recorded a turnover of HK$1.8 million as compared to HK$29 million recorded in the previous corresponding year. The Internet business in the PRC had not been providing satisfactory results as the business environment intensified with competitors. The Group has decided to set aside the iBuilding project as the Group is having difficulty to secure the telecommunications service operating permit which is required under the new telecommunication rules. In view of the current business environment faced by our Internet business unit, the Group was unable to charge any consultancy fee to IHW under the cooperation agreement entered on 19 December 2001. This has led to a significant decrease in the turnover.

Results from operation attributed by the Internet business unit recorded a loss of HK$43 million as compared to a loss of HK$1,173 million in the previous corresponding year. The significant loss recorded last year was mainly made up of an one-off provision on the Group's goodwill, carried in reserves arising out of the acquisition of both the Chinacon.net Group and the Megabit Group in year 2000 which amounted to HK$1,131 million, while the loss recorded this year included assets written off of HK$35 million on non-performing fixed assets.

***Software Development Business***

Turnover attributed by the Software Development business amounted to HK$9.5 million as compared to HK$2.7 million in the corresponding period last year. The turnover for the year was generated by sale of Enterprise Application Software for a full year operation while sales generated in 2001 represented only two months operations subsequent to the completion of the acquisition in October 2001.

In view that this business unit did not achieved its desired results during the year under review, the management decided to redirect our resources towards exploring for other related business opportunities. Consequently, on 31 December 2002, the Group entered into a Software Purchase Agreement (the "Agreement") with a third party to sell one of our software businesses, in particular, the ERP Software (Window version), for a consideration of HK$11,000,000 which shall be satisfied at Completion by the purchaser issuing and allotting 180 shares, representing 18% of the issued share capital of the purchaser. This transaction has not been completed at the date of the annual report.

Loss from operation amounted to HK$39 million which included the HK$31 million provision for impairment of goodwill arising from the acquisition of the software development business in October 2001.

### Outlook

It has been difficult to achieve growth in the prevailing economic climate. However, our strategy, to expand through organic growth, and growth through acquisition and partnerships, remain unchanged. The management will continue to adopt a prudent yet enterprising management approach to explore for new businesses and/or investments with an aim to strengthen the quality of its investment portfolio and improve the overall financial performance of the Group.

## MATERIAL CONTINGENT LIABILITIES

The Group is not aware of any material contingent liabilities for the year ended 31 December 2002.

## EMPLOYEES AND REMUNERATION POLICY

At the balance sheet date, the Group employed approximately 45 (2001: 52) staff in Hong Kong and approximately 654 employees (2001: 718) in Mainland China. Employee remuneration are given and reviewed based on market norms, individual performance and experience. Awards and bonuses are considered based on the Group's business results and employees' individual merit.

The Group also granted share options to certain employees of the Group on 10 July 2000, entitling them to subscribe for shares of the Company. These options are exercisable in stages commencing twelve months from the date of grant. The expiry date of the options is ten years from the date of grant. During the year under review, no option was exercised.