

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

During the year under review, the Group recorded a turnover of approximately HK\$708,000 (2001: HK\$240,376,000) for the year ended 31st December 2002. Of the total turnover, HK\$466,000 (2001: HK\$2,795,000) was generated from DICO and HK\$242,000 (2001: HK\$222,000) was generated from Transonline for the year ended 31st December 2002. Since we had disposed of the property and gas related operations in October 2001, no revenue (2001: HK\$237,359,000) was generated in the relevant segments for the year ended 31st December 2002. The loss attributable to shareholders for the year ended 31st December 2002 was HK\$47,177,000 (2001: HK\$479,400,000, after the provision for impairment loss of HK\$382,331,000 on goodwill).

The unsatisfactory turnover and operating results are attributable to the fact that neither of the Group's two major operations, TransOnline and DICO, attained the expected level of operation during the year. The circumstances surrounding these operations, and the prospects going forward, are set out in the sections headed "operations review" and "outlook" below.

During the year, we continued to consolidate and streamline our management and working teams through enhancing our efficiency, controlling our cost and focusing our development in transport logistic services and DVB-C market in order to overcome the current difficult operating environment. The decrease in selling and general and administrative expenses of approximately HK\$27,807,000 and financial costs of HK\$29,154,000 was largely contributed by the disposal of property and gas related operations in 2001. Of the Group's total operating expenditure, staff costs continued to represent the largest component. Total number of staff was 97 as at 31st December 2001. Through consolidating and streamlining our management and working teams, the current head count is 62. The Directors believe that the quality of our employees is the most important factor in sustaining the Group's growth and improving its cost effectiveness. Employees are now remunerated according to their performance and work experience. In addition to basic salaries and retirement scheme, staff benefits include medical scheme, share options and performance bonus.

In July 2002, an open offer was completed with net proceeds of approximately HK\$51,207,000 was generated. Such arrangement had improved the liquidity of the Group. The net current liabilities has reduced from HK\$55,609,000 in 2001 to HK\$47,213,000 in 2002 and the total liabilities to total shareholders' equity ratio has also been reduced from 604% as at 31st December 2001 to 312% as at 31st December 2002.



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OPERATIONS REVIEW

TransOnline

TransOnline (華夏交通在線) hinges on “Freight Exchange Information System”, “Integrated Logistics Solution” and “Value Added Services” for our members across the PRC. The progress in the development of TransOnline has continued roughly as planned, although our services have been delayed somewhat, and as a result, there has been little revenue generated. The status of development of TransOnline is set out below:–

“Freight Exchange Information System”

This is the result of a five years’ research project across the globe undertaken by the Research Institute of Highway under the Ministry of Communications. It is a highly specialised and dedicated network based land transport logistic infrastructure covering the entire PRC which took us over two years to build. With such difficult operating environment, we are able to maintain 87 alliance members and 67 special support units over 137 medium to large cities covering all provinces with the exception of Hainan, which is not directly linked by road. We now have over 270 service-centers catering for our members’ needs across the PRC offering basic services such as cargo matching, personal authentication, vehicle maintenance, insurance and lodging. We have also provided training to our alliance members in handling our dedicated system in over 80 cities.

“Integrated Logistics Solution”

We have for the first six months of this year worked closely with a Canadian based logistic software provider to evaluate, modify and select suitable Canadian logistic software for the PRC small to medium size enterprise. So far we have tried but unable to find a suitable site to build a fully operational logistic hub using our Warehouse Management System (“W.M.S.”)

We have however completed a system called 貨運小靈通 which is dedicated for the freight brokering industries that operate with centralised call centers across the PRC. There are in excess of half a million freight-brokers covering all major cities in the PRC.

“Value Added Services”

We are still under negotiation with a leading wireless operator in the PRC to work on a nationwide Location Base Services (“L.B.S.”) in conjunction with Short Messaging Services (“S.M.S”) for our Transport Management System (“T.M.S.”).

DICO

DICO is principally engaged in providing broadband and cable TV related platform and equipment for cable TV and telecommunications service operators. It also offers solutions to cable operators by providing systems ranging from the central network management systems to subscribers management systems called DIC-TBS System in order to integrate hardware and software into practical and usable DVB-C system for cable operators. The segment of the market in which DICO operates has practically been stagnant while awaiting the State Administration of Radio, Film and Television (“SARFT”) to set the relevant standards for DVB-C industry.

MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK

The Group will focus on network based land transport logistic infrastructure development under TransOnline and DICO plans to use its technology and know-how to provide installation and consultation services for medium to large size luxury residential property development projects in the PRC.

TransOnline

“Freight Exchange Information System”

It is believed that this is the most suitable time to commence our membership roll out program. Since there are already over 270 network based service outlets across 137 medium to large cities in the PRC providing initially basic services such as cargo matching, personal authentication, vehicle maintenance, insurance and lodging, our target for the year 2003 will be 5,000 paying members over 200 cities to start with and then followed by over 300 cities by middle of next year.

“Integrated Logistics Solution” and “Value Added Services”

The Company still intends to pursue the identification of a suitable site to complete installation of its first fully operational logistic hub for its alliance members by middle of year 2003. We will use the dedicated Canadian logistic software with our W.M.S. and our T.M.S. Pending the final outcome of our negotiation with the wireless operator and a platform provider, a full deployment of an operational L.B.S. across the PRC in conjunction with S.M.S. will be available sometime in the year 2003 for the whole transport logistic service industry. If successful, these services will generate substantial income for the group.

DICO

In view of the fact that SARFT has yet to set the relevant standards for the DVB industry in the PRC thereby kick-start the industry. Subsequent to the 16th Communist Party of China National Congress together with the 2003 National People's Congress, it is unlikely in the near future the relevant authorities will ease the restrictions imposed on foreign media content provider. As a result, the DVB-C industry will likely to remain practically unchanged for the first half of year 2003. However, if the market changes, we will be able to penetrate this vast and massive market.

While the DVB-C market remains an uncertain, we have been planning to use DICO's technology and know-how to provide installation and consultancy services to developers of luxury residential estates. The potential future customers of the Group in this new initiative is likely to include certain related parties in the real estates business. As and when appropriate, further notice will be made by the Company in this regard, subject to the requirements under Chapter 14 as set out in the Listing Rules.

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OTHER EVENTS

Capital Adequacy and Liquidity

As at 31st December 2002, the Group had a deficit on net tangible assets of HK\$40,583,000 (2001: HK\$47,752,000) and a net current liability of HK\$47,213,000 (2001: HK\$55,609,000) (inclusive of amounts due to related companies).

The Directors recognise that in view of the uncertainty in the market in the immediate future, the continuation of the Group's business will depend on the financial support of its directors and major shareholders. In this connection, Mr. Chan Chak Shing has confirmed that he will provide the necessary funding to the Group within twelve months from the date of this report.

The operations of the Group was also financed by bank and other loans of HK\$20,755,000 (2001: HK\$21,363,000) and bank overdraft of HK\$4,891,000 (2001: nil).

Contingent Liabilities

As at 31st December 2002, a subsidiary of the Company provided a corporate guarantee in respect of banking facilities granted by banks to a third party to the extent of HK\$6,675,000 (2001: HK\$18,857,000).

Employee

As at 31st December 2002, the Group had 62 (2001: 97) employees majority of which were based in the PRC.

The subsidiaries of the Group in the PRC participate in the defined contribution pension schemes operated by the relevant local government authorities in the PRC. Following the adoption of the Mandatory Provident Fund Scheme ("MPF") since December 2000, the Group's directors and employees in Hong Kong joined the MPF. The total amount contributed to the relevant pension schemes in the PRC and MPF for the year ended 31 December 2002 was HK\$373,000 (2001: HK\$699,000).

Redomicile and Capital Reorganisation

On 4th December 2002, the Company changed its domicile from the Cayman Islands to Bermuda. On the same day, the registered office of the Company was changed to Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. In order to comply with Bermuda Company Law, a new memorandum and bye-laws was adopted to replace the previous memorandum and articles of association of the Company.

The Capital Reorganisation was effective on 20th December 2002. After the Capital Reorganisation, the Company has an authorised share capital of HK\$300 million divided into 30 billion new shares of HK\$0.01 each. The issued and unissued shares of the Company are 1,558,480,000 and 28,441,520,000 respectively. There was no change to the board lot for trading in shares of the Company on The Stock Exchange of Hong Kong Limited.