

Executive Directors' Statement

Results

The Group's turnover and net loss for the year ended 31 December 2002 were approximately HK\$25 million (2001: HK\$47 million) and HK\$213 million (2001: HK\$199 million) respectively. Loss per share was HK11.98 cents (2001: HK22.3 cents).

The decrease in revenue for the year 2002 was due to a 37% drop in revenue of the construction division and the disposal of Reach Video Production Co. Ltd in the year 2001, which booked a turnover of HK\$12 million in that year.

Dividend

No interim dividend was paid during the year (2001: Nil). The Board of Directors does not recommend the payment of a final dividend for the year (2001: Nil).

Business Review

Construction Contractor

In general, the economy in Hong Kong in the year under review remained weak with the property sector particularly hard hit. As a consequence, the construction industry was one of the most severe affected in Hong Kong. In view of the unfavourable trend, the Group diversified geographically into the People's Republic of China ("PRC"). The turnover of the construction division as a whole recorded a decrease of 37% from approximately HK\$35 million for the year 2001 to approximately HK\$22 million for the year 2002. The turnover in the PRC amounted to approximately HK\$9 million, without which the turnover for the construction division would have dropped by 64%. Construction contract costs mainly represent direct materials and subcontracting costs for construction projects. It decreased by 35% from approximately HK\$36 million in year 2001 to approximately HK\$24 million this year, in line with the drop in turnover.

In the coming year, we will deploy additional resources to expand our construction and property related businesses in the PRC so as to compensate for continually weak construction market in Hong Kong.

Provision of Network Security Services

The Group acquired Cyber Energy Inc. ("Cyber Energy") late in the year 2001. 深圳安網達網絡技術有限公司 ("安網達"), the 60% subsidiary of Cyber Energy is principally engaged in the development and manufacture of internet-secured personal computers and network security devices. Due to the unfavourable environment in the computer and internet industry and our Group's conservative approach towards the massive funding requirement of 安網達's operation in the PRC, Cyber Energy recorded a turnover of approximately HK\$1.2 million and an operating loss of approximately HK\$152 million, arose mainly from the amortisation of intangible assets amounting to HK\$139 million.

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Business Review (Cont'd)

System Integration and IT Training

In order to further our Group's development in technology related field, the Group acquired a 50% interest in Great Win International Limited ("Great Win") on 26 March 2002 for an aggregate consideration of HK\$36 million. Great Win's wholly owned subsidiary, Intwell Technology (S) Private Limited ("Intwell") is principally engaged in the development, production and sale of computer hardware and software, integration of computer software and provision of training and after sales services in Singapore and the PRC.

Hotel Operation

To expand the Group's construction division to capture the hotel renovation and decoration projects in the PRC, the Group acquired Smartop Development Limited ("Smartop") which holds a licence to manage and operate a hotel in Guangdong, the PRC for an initial period of two years from 8 March 2002 extendable for a further period of eighteen years. The hotel started renovation from August 2002 which was completed recently. As a result, Smartop did not record turnover for a full year.

Future Developments

Development contract in the PRC

On 14 February 2003, the Company has entered into an agreement to acquire a 100% interest in Starwood Investment Limited ("Starwood") for an aggregate consideration of HK\$14 million payable as HK\$1.4 million in cash and HK\$12.6 million by the issue of promissory note. Starwood holds a development contract regarding the development of the Mandarin Garden situated at Zhangchun, Fucheng, Dongguan City, the PRC with unbuilt land area of approximately 12,580 square metres. Details of this transaction were dispatched to shareholders in a circular dated 14 April 2003.

Supermarket operations in the PRC

On 13 March 2003, the Company has entered into a Heads of Agreement with Mr. TAM Jin Rong, a substantial shareholder of the Company, to acquire a 40% interest in Dongguan Zhonghao Mart Co., Ltd ("Zhonghao") for an aggregate consideration of HK\$26.8 million to be satisfied by the allotment and issue of 268,000,000 shares at HK\$0.10 each. Zhonghao will hold a 100% interest in four supermarkets in Dongguan, Guangdong Province, the PRC and a 50% interest in a supermarket in Shunde, Foshan, Guangdong Province, the PRC.

Control over Operating Expenses

General and administrative expenses decreased sharply by 42% from approximately HK\$42 million in 2001 to approximately HK\$24 million in 2002 due to cost saving measures introduced during the year. These expenses include staff costs, professional fees, consultancy fees and general administrative expenses. The directors will continue to control the overheads of the company in line with the level of its business activities.

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Future Developments (Cont'd)

Share of Results of Associated Companies

The share of losses of associated companies amounted to approximately HK\$0.5 million representing the loss from Intwell, the newly acquired associated company. Last year, the Group recorded share of losses from associated companies, which were disposed of last year, amounting to approximately HK\$11.6 million.

Amortisation of Intangible Assets

Amortisation of intangible assets amounted to approximately HK\$152 million, representing a substantial portion of the total operating expenses for the year. The amortisation of intangible assets mainly arose from our acquisition of Cyber Energy. (2001: HK\$30 million)

Liquidity and financial resources

Placements

During the year, the Company has successfully completed a placing of 290 million ordinary shares of HK\$0.1 each. The placement generated net proceeds of approximately HK\$29 million for additional general working capital for meeting general future cash outflow requirement and/or funds for potential acquisitions by the Company.

Convertible Loan Notes

On 26 March 2002, the Group issued convertible loan notes in the aggregate amount of HK\$35 million as part consideration for the acquisition of Great Win. These convertible loan notes bear interest at 3% per annum with maturity date on 25 March 2005. During the year, a total of HK\$18 million convertible loan notes were converted into 142 million ordinary shares of HK\$0.1 each. The aggregate amount of the convertible loan notes outstanding as at 31 December 2002 was HK\$17 million.

Redeemable Debentures

During the year, a total of HK\$68 million redeemable debentures were redeemed (2001: HK\$81 million). The aggregate amount of the redeemable debentures outstanding as at 31 December 2002 was HK\$52.8 million.

Gearing Ratio

The Group's consolidated interest bearing debts less cash on hand amounted to HK\$68 million (2001: HK\$85.7 million) in contrast to the shareholders' equity of HK\$74 million (2001: HK\$230 million), resulting in a gearing ratio of 91% as at 31 December 2002 (2001: 37%). The increase was mainly due to the issue of convertible loan notes on the acquisition of Great Win and the operating loss for the year.

Finance cost

Interests on the Group's borrowings were based on the normal commercial interest rates for the bank loans and overdrafts, redeemable debentures, and the convertible loan notes.

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Exchange rate risk exposure

Most of the Group's transactions were in Hong Kong Dollars and Renminbi. As the exchange rate of Renminbi against Hong Kong Dollar was relatively stable during the year, we were not exposed to any significant exchange risk in 2002.

Contingent liabilities

As at 31 December 2002, there were contingent liabilities in respect of the letters of indemnity for certain insurance companies amounting to HK\$10.6 million and some legal claims amounting to HK\$5.2 million from sub-contractors.

An ex-chairman of the Company has issued a writ for the loss incurred amounting to approximately HK\$18.8 million in respect of a purported exercise of share option in 1999. The Company has filed a counter-claim against him for HK\$140 million.

Two subsidiaries of the Company were being issued a writ for an aggregate sum of approximately HK\$42.7 million in respect of breaches of nominated subcontract works in relation to the interior fitting out works to hotel and service apartment of Beijing Oriental Plaza. The Company has sought independent legal opinion. The Board of Directors considered the maximum negative impact to the Company, in the unlikely event that the two subsidiaries lose the claim, will be around HK\$8.7 million, being the counter indemnity provided in favour of Cosmic Insurance Corporation Limited.

Charge of assets

Last year, the bank loan facilities utilised by the Group's subsidiary were secured by fixed deposits of a subsidiary amounting to approximately HK\$15.8 million (RMB16.5 million) while it was released during the year 2002.

Future Prospects

The general slow down in the property market in Hong Kong is causing an ever narrowing profit margin and increasing collection risk for the construction industry in Hong Kong, the Directors expected a significant contraction in business prospect of our construction division in Hong Kong. We will therefore continue to look for opportunities in the construction and property related areas in the PRC so as to better utilise our construction expertise. Entering into agreements to acquire Starwood and Zhonghao are significant steps towards this direction.

We will also look for other opportunities in both Hong Kong and the PRC for investments which would generate positive cashflow and profits for the Company.