Management Discussion and Analysis

The Overview

For the financial year 2002, the sluggish global economy was further weakened by the 11 September event in the United States. It was a challenging year for most companies especially those whose business activities are related to the security market.

In year 2002, the Group has developed its business along two directions. The first direction is to build up operating subsidiaries to generate steady cash flow for the Group, and the second direction is to invest into companies which may generate capital gain for the Group by converting the Group's equity in these companies into tradable securities. While the operation of the Group's operating subsidiaries would depend on the situation of the relevant industry, the exit of investments from different projects would be affected by the conditions in the security market and the atmosphere among investors.

The management believes that establishing operating subsidiaries and investing into ventures are both important to the Group. After the collapse of the Internet Bubble, the immediate task of management is to reduce the burn rate and re-establish operations which can provide revenue. The management has successfully established the telecom operation at the end of year 2001, and has led the telecom operation into a stable operation in year 2002. The purpose of investment in different ventures is to generate short term return either in form of cash or securities. The management believes that a combination of operations with steady revenue and ventures with potentially short-term income will be the most constructive and beneficial approach to the Groups' development. However, the global economic conditions make above strategies difficult to generate the expected results.

The Telecom Operation

The Group carries out the telecom business through renren Telecom, a subsidiary under the Group. In year 2002, the telecom business under the Group had faced fierce competition. renren Telecom is the pioneer in the IDD call forwarding business that renren Telecom combines the IDD services originated from HK, the IDD services originated from PRC, and the IDD call forwarding services into a single package which can be purchased in over 100 shops in Hong Kong. However, in year 2002, more competitors have entered into the market.

When the new players from telecom operators entered into the IDD call forwarding market, the competition caused price war in the IDD call forwarding services and forced all service providers to reduce the profit margin. renren Telecom under this circumstance has inevitably joint the price war to maintain a reasonable size of user base. The management has cut down the overhead of renren Telecom in mid 2002, and focus all resources of renren Telecom to maintain high quality services and recruit new users.

Management Discussion and Analysis

It is believed that the IDD market will continue to be very competitive and the profit margin will be low. The Group will try to overcome this undesirable situation through exploring new value-added services or new business model. The Group will explore other value-added services which can be delivered base on the existing infrastructure without additional asset investment. Through developing value-added services, the Group hopes that the profit margin can be increased. Some trials in value-added services have been carried out in 2002 such as providing infotainment content over the voice lines. However, a sustainable model has not yet been worked out. Some trials in new business models have also been conducted in year 2002. For instance, the Group has provided the infrastructure to other companies and help them to issue call cards marketed under their own brand name. The Group will further review this model in this year.

The Strategic Investments

In year 2002, the Group has invested into several ventures. The Group focuses in investing into projects related to information technology, telecommunication, media and entertainment. Projects with the China dimension such as covering the China market will be the Group's priority. The Group planned to generate return from these ventures by converting the equity in these ventures into tradable securities through public listing.

Since the investment atmosphere in year 2002 was very negative and the expected rebound of the economy has not materialized, the public listing of these projects became difficult. The Group has successfully disposed one of its ventures in year 2002 by selling the interest of a project. The Group believes that the exit strategy of the Group's existing investments have to be reviewed in year 2003. The original planning of exiting through public listing may not be feasible yet, and selling the interest in these ventures to strategic investors at a lower valuation may be more effective.

In year 2002, the Group has written off around HK$36 million of goodwill in those investments.

FINANCIAL REVIEW

(a) Capital structure and liquidity

As at 31 December 2002, the Group had shareholders fund of HK$89.5 million comprising issued capital of HK$6.2 million and reserves of HK$83.3 million. The current assets and current liabilities of the Group were HK$20.8 million and HK$19.9 million respectively such that the current ratio was 1.05.

(b) Contingent liabilities

As at 31 December 2002, the Company granted guarantees to the extent of HK$15 million to various securities dealers who have offered financing facilities to several wholly-owned subsidiaries of the Group. These facilities have never been utilized during the year. Other than these, the Group had no significant contingent liabilities as at 31 December 2002.

Management Discussion and Analysis

FUND RAISING AND MATERIAL INVESTMENTS

On 5 March 2002 a rights issue was completed with proceeds before expenses of HK$ 109 million. HK$36 million out of the proceeds was used to finance the consideration of the Grandmax Agreement. Another HK$54 million was used to finance the consideration of the Magna Steels Agreement and the balance of the proceeds was applied as general working capital of the Group. Details of this rights issue and the Agreements were contained in the circular dated 10 January 2002 sent to shareholders of the Company.

On 23 December 2002 a placement and subscription of new shares of the Company was completed. The Company placed 150,000,000 new shares to more than six independent investors at a price of HK$0.031 per share and 157,586,193 new shares of the same price were subscribed by Rich Delta Development Limited, a company indirectly wholly-owned by Mr. Mak Chi Yeung, the Chairman and the controlling shareholder of the Company. Proceeds of HK$9.5 million before expenses was raised from this exercise. HK$7.8 million had been applied to settle part of the promissory notes issued by the Company pursuant to a sale and purchase agreement dated 5 November 2002 made by Polywise Limited as purchaser, a wholly-owned subsidiary of the Company. The consideration for the purchase was HK$9 million satisfied by issuing promissory notes of the Company. Details of the placement and subscription and the purchase by Polywise Limited were contained in the circular dated 5 December 2002.

EMPLOYEES

The number of full-time employees of the Group at 31 December 2002 has reduced to approximately 14. Employee costs excluding director's remuneration is about HK$5.9 million. No options have been granted to any employee during the year and the details of options granted previously to employees are contained in Report of the Directors.