Operation Review

During the year, the Group principally engaged in information technology business, financial information provision and through its listed subsidiary, South Sea Holding Company Limited ("South Sea"), engaged in property investment and development; design, manufacturing and marketing of consumer electronic products and provision of electronic manufacturing services. Turnover for the year decreased by 16.9% to approximately HK$389.0 million (2002: HK$467.9 million) and net profit of HK$13.8 million (2002: net loss of HK$32.5 million) was recorded. The net assets value of the Group amounted to approximately HK$2,708.3 million, representing a value of HK$ 0.19 per share.

The decrease in the Group's turnover was mainly due to the shrink in sales income from its manufacturing business. Despite the decrease in revenue, the Group enjoys a successful year in view of continuous developments and contributions from its Information Technology and Financial Information Provision business.

Information Technology Business

During the year, this division recorded revenue of approximately HK$159.5 million (2002: HK$128.8 million) and a segment profit of approximately HK$12.1 million (2002: HK$11.9 million), representing an increase of 23.8 % and 1.7% respectively over the last financial year.

This business division offers Internet Application Services to corporate clients, mainly through its 80% owned subsidiary, China Enterprise ASP Limited ("CE"). Performance of this division has been posting strong result. In a move to further strengthen the Company's market share in the business information application service sector, subsequent to the year end, CE completed acquisition of two prominent Chinese corporations in this industry, Beijing Xinnet Digital Communication Network Co. Ltd. ("Xinnet") and Beijing CCG Technology Co. Ltd. ("Beijing CCG").

Xinnet mainly provides domain name registration and virtual hosting service to over 280,000 clients and 50,000 clients respectively. Xinnet also has a nationwide sales network comprised of about 3,000 distributors. Through the merger of Xinnet and CE, the enlarged company dominates over 50% market share in the domain name registration and virtual hosting services sector in China.

Beijing CCG mainly provides Supply Chain Management and Distribution Resources Platform for advanced information service providers. Acquisition of Beijing CCG signifies CE's major step toward a steady expansion into the advanced information application service sector to meet growing customer demands.

The series of acquisitions help CE to further diversify its product line and becoming a conglomerate which focuses on the business information application sector. The management strongly believes such services offered to corporate clients shall become an "Internet Utility" and will generate strong and stable income for the Group in the years to come.

Financial Information Provision

Turnover for the year was approximately HK$70.6 million (2002: HK$38.8 million) and recorded a segmental profit of approximately HK$26.6 million (2002: loss of HK$3.2 million). The increment in both turnover and profit was mainly due to a full year financial impact which was reflected in this financial year.

Since the Group acquired Beijing Shihua International Financial Information Company Limited ("Shihua") in August 2001, the new management has invested heavily on products development and explored new markets. Shihua now provides services to over 112 banks and branches with personal FOREX investment business services; 375 futures trading firms; 12 securities houses; 45 educational institutions; and 350 corporations, combining about 60,000 terminals. Shihua currently commands a dominating 85% of the futures market and 65% of the Banking sector's which provides personal FOREX information market in China.

Other Businesses

The Group continues to invest in projects such as on-line distance learning, and culture and media sector in China. However, the scale of these operations remains relatively insignificant and no profit contribution was recorded during the year. During the year, the Group acquired 77.67% interests in Acesite (Phils.) Hotel Corporation, owner of Manila Pavilion Hotel in the Philippines.

Property Development in China

During the year, the Group recorded no turnover for this business division. However, the Group disposed its interest in property development projects in Nanjing producing a profit of HK$117.8 million (2002: Nil). The major development business projects are in Shenzhen and Guangzhou. The government authority has approved the detailed urban planning design of the Shenzhen project, and development of the project will proceed in five phases. It is expected that the project will generate strong cash flow for the Group in the next few years. In addition, the government authority has also approved the detailed urban planning design of the development project in Guangzhou, and construction work of the first phase is expected to begin in early 2004.

Manufacturing and Marketing of Consumer Electronic Products

This division recorded revenue of approximately HK$100.5 million (2002: HK$211.8 million) and a segment loss of approximately HK$21.2 million (2002: HK$43.0 million). Given the sluggish economy in general, the management will continue to focus on reducing the overheads and to improve the operating efficiency of this business division.

Liquidity, Financial Resources and Capital

The Group continues to adopt prudent funding and treasury policies. As at 31 March 2003, net asset value of the Group amounted to HK$2,708.3 million, including cash and bank balances of HK$66.5 million, which was denominated mainly in Renminbi and Hong Kong dollars. As at 31 March 2003, the Group's aggregate borrowings increased to HK$1,487.3 million (2002: HK$1,174.1 million) including convertible notes amounted to HK$400 million (which bears an interest rate of 1% per annum and will mature on 31 December 2004) issued by the Company during the year. Subsequently, convertible notes of HK$200 million were converted into 2,000,000,000 shares of HK$0.10 each in the capital of the Company on 25 June 2003. The increase in borrowings is due to the issue of the convertible notes by the Company, and the consolidation of a subsidiary acquired during the year. For the Group's borrowings at 31 March 2003, HK$951.7 million were bearing interest at fixed rates while HK$535.6 million were at floating rates. The gearing ratio of the Group, measured on the basis of total borrowings as a percentage of total shareholders' equity, increased to 54.9% from 43.8% in the last year. The Group's contingent liabilities at 31 March 2003 were HK$119.7 million due to the guarantees given in connection with credit facilities.

As at 31 March 2003, land held for development in Hong Kong with carrying value of HK$58.8 million property, plant and equipment with the net book value of approximately HK$699.6 million; shares in certain subsidiaries within the Group; certain investment in and amount advance to a subsidiary with a net balance of HK$178.2 million in a subsidiary; undertakings on the part of the Group for the assignment of rentals from the letting of certain investment properties, and proceeds from sales of certain investment properties; listed securities with market value of approximately HK$195.7 million; certain portion of land held for development at Guang Hua Gong Lu, Hua Du City, Guangdong Province, China; and land held for development with lot no. K708-5 at Liu Wan, Shekou, China together with all its sales proceeds were pledged as securities for credit facilities.

Pursuant to an agreement dated 4 April 2002, Mr. Yu Pun Hoi ("Mr. Yu"), director and a substantial shareholder of the Company, may require the Company, within 3 months, to issue convertible notes of up to an additional principal amount of HK$200 million for subscription by the investors or by himself or one or more of his associates upon the completion of the issue of convertible notes in an aggregate principal amount of at least HK$400 million, which have been issued to investors on 31 December 2002. According to the agreements dated 27 March 2003 and 30 June 2003 respectively, the Company and Mr. Yu have subsequently agreed to extend the exercisable period to 31 December 2003 or such further period as may be mutually agreed.

Exposure to Fluctuations in Exchange Rate

As the majority of the Group's borrowings and transactions are denominated in Hong Kong dollars, US dollars and Renminbi, the Group's exposure to exchange rate fluctuations is relatively insignificant. In general, the Group mainly utilizes its Renminbi income receipt for operating expenditures in China and has not used any financial instruments for hedging Renminbi bank borrowings during the year and such borrowings were mainly used for Renminbi capital requirements in China.

Employee

The Group employs and remunerates its staff based on their qualifications, experience and performance. In addition to basic salary payments, other benefits include contributions to mandatory provident fund, group medical insurance, group personal accident insurance, external training sponsorship and examination leave. Employees are eligible to be granted share options under the Company's share option scheme at the discretion of the Board. In general, salary review is conducted annually. At 31 March 2003, the Group had approximately 3,779 employees (2002: 3,718 employees). The salaries and allowance of employees for the year ended 31 March 2003 was about HK$125.9 million (2002: HK$100 million).

Prospect

It is the Group's strategy to continue focusing on the provision of business information application and financial information services in China, and through South Sea, to participate in the rapidly growing property market in major cities in China. Given the leading market positions that the Group's businesses have attained, the management strongly believes the current success will continue and lead to better returns for the shareholders.