

Management's Discussion and Analysis

The following Management's Discussion and Analysis of Financial Conditions and Results of Operations contains forward-looking comments that involve risks and uncertainties. These forward looking statements are management's current estimates or beliefs, and the actual outcome could be significantly different, due to risk factors such as, among others, changing market conditions, changing technologies, competition, and our own ability to execute.

General

ICGE is a leading B2B e-commerce group of companies. It is actively engaged in business e-commerce through a network of partner companies. The Company is ICGE's exclusive platform in Asia Pacific. The Company's focus encompasses B2B e-commerce, enterprise software, IT services and wireless broadband technologies. As of 31 December 2000, the Company owned interests in three partner companies of which two focus on B2B e-commerce and one is an IT service provider.

Financial Results and Liquidity

The results for the year ended 31 December 2000 reflected the Company's toys and property subsidiaries through 1 January 2000 to 3 May 2000 (see note 13(c) on the accounts for details) and the start-up costs associated with the new IT business from 4 May 2000 to 31 December 2000. Operating loss attributable to shareholders of the Company and its subsidiaries for the year ended 31 December 2000 was HK\$1,037 million compared with a profit of HK\$63.9 million during the previous year. Loss per share was HK\$24.42 cents versus earnings per share of HK\$3.70 cents in 1999.

Pursuant to the Subscription Agreement dated 9 March 2000, as amended on 29 March 2000 and completed on 4 May 2000, the Company issued approximately 3.7 billion new shares at HK\$0.30 each to 1999 Internet Capital L.P., a wholly-owned subsidiary of ICGE, Hutchison, Li Ka Shing Foundation Limited and Asia Employment Company Limited (the "Completion"). On Completion, the Company became an indirect 50.1% subsidiary of ICGE. The funding from the subscription for new shares was invested in short-term deposits that generated interest income and contributed to the increase in other revenue.

Cash and cash equivalents at year end totaled HK\$1,306,367,000. The Company at year-end remained debt-free. The Group maintained a healthy balance sheet with total net assets of HK\$1,666,198,000 (1999: HK\$1,578,517,000).

Employee Remuneration Policy

As of 31 December 2000, due to the change of business focus, the Group had 37 employees in the new IT business (excluding the toys and property subsidiaries). In 1999, the toys and property businesses employed 2,900 staff and 17,000 workers. The Group's remuneration policies are in line with prevailing market practices and formulated on the basis of the performance and experience of individual employee. The Company has an employee share option scheme which is due to expire in June 2001. There are currently no outstanding options issued under the scheme.

Operating Results

Pre-Completion, the period between 1 January 2000 and 3 May 2000, margins of toy sales decreased from prior years due to increases in raw material costs and the under absorption of overhead. The Company's property operation continued to generate a steady stream of rental income during the same period and also recorded a tax refund awarded by the Inland Revenue Department.

After a review of the financial position and operations of the Company, the Company has determined to focus on developing our B2B e-commerce and IT opportunities and, accordingly, to hold the toys and property subsidiaries for disposal. The Company has no immediate plans for disposal and will not effect any such disposal if SEHK or the Securities and Futures Commission will have any objection thereto. In view of this determination and the lack of effective control and substantial long-term restrictions on management, the Company has not included the toys and property subsidiaries in its consolidated results of operations since 4 May 2000. Accordingly, the Company has made a provision of HK\$1,018,148,000 to reflect the value of the toys and property subsidiaries as at 31 December 2000.

The Company has the right under the Put Option Deed entered into on 9 March 2000 to sell the toys and property subsidiaries for HK\$225 million to a company indirectly controlled by Hutchison and Dr. Luk Chung Lam, the previous chairman of the Company, at any time before 3 May 2002, subject to certain provisions for extension. The obligations of such company under the Put Option Deed are guaranteed by Hutchison.

Post-Completion, the period between 4 May 2000 and 31 December 2000, the Company's results reflected the new management's action to capitalize on the Asian B2B e-commerce opportunity. The Company's core focus is to assist backend automation of Asian corporations. It does so by mainly targeting companies that focus primarily on leading Asian infrastructure companies, in areas such as systems integration, software localization and distribution and outsourced services. It also assists or brings US partner companies of ICGE to Asia Pacific. It provides the US partner companies with the necessary resources and leadership to establish their Asia Pacific operations.

The status of the businesses the Company has built or invested in as of 31 December 2000 is as follows:

Breakaway Solutions Asia Pacific Limited

Breakaway Asia Pacific is a joint venture between the Company and Breakaway, a US partner company of ICGE. The Company holds approximately 80% (subject to reduction for any shares which may be transferred to employees of Breakaway Asia Pacific) and Breakaway holds approximately 20% of Breakaway Asia Pacific. Breakaway contributes its technology and intellectual property rights on a royalty-free, exclusive basis for Breakaway Asia Pacific. Breakaway Asia Pacific is an ERM solutions provider offering consulting practice and technology services throughout Asia.

MegaVillage.com Holdings Limited

MegaVillage is a virtual sourcing agent for multinational companies in light consumer product industries. It provides buyers with one-stop solutions that enable them to select from a wide-range of consumer products manufactured in the Greater China region. MegaVillage has launched four vertical procurement sites for products including timepieces, luggage, eyewear and footwear.

FreeBorders.com, Inc.

FreeBorders is one of ICGE's partner companies in the US. Headquartered in San Francisco, California. FreeBorders is a leading global supply chain solution provider that focuses on creating efficiency in the soft goods industry including apparel, textile and retail products. FreeBorders offers a comprehensive design-to-delivery solution leveraging IBM's technology. The web-based software integrates design, sourcing and delivery applications, customized to the customer's environment and needs.

Accounting Methods on our Results of Operations

Post-Completion, the Group adopted a new accounting policy for investment in securities. The interests of our partner companies are accounted for under three broad methods: consolidation, equity method and marking to market value. The applicable accounting method is generally determined based on our voting interest in a partner company.

Consolidation. Partner companies in which the Company directly or indirectly holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors are subsidiaries of the Company. Subsidiaries are generally accounted for under the consolidation method of accounting. Under this method, a partner company's results of operations are reflected within our consolidated profit and loss account. Participation of other partner company shareholders in the earnings or losses of a consolidated partner company is reflected under minority interests in our consolidated profit and loss account.

Equity Method. Partner companies whose results the Company does not consolidate, but over whom the Company exercises significant influence, but not control or joint control, are associates of the Company. Unless the interest in the associate is acquired and held exclusively with a view to subsequent disposal in the near term, an investment in an associate is accounted for under the equity method of accounting. The determination of significant influence depends on several factors, including representation on the partner company's board of directors and ownership level, which is generally a 20% to 50% interest in the voting securities of the partner company. Under the equity method, an investment in an associate is initially accounted for at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets. The consolidated profit and loss account reflects the Group's share of the post-acquisition results of the associates for the year. Partner company's results of operations are not reflected in the Company's consolidated profit and loss account, however, our share of the earnings or losses of the partner company is reflected under share of profits less losses of associates. As of 31 December 2000, MegaVillage is the Company's only partner company using this method.

Marking to Market Value. Investments in partner companies not accounted for under either the consolidation or the equity method of accounting are marked to market value at the balance sheet date. As of 31 December 2000, FreeBorders is the Company's partner company accounted for under this method.

Future Outlook

The Company intends to be a leading builder of Asia-based B2B e-commerce company. In February 2001, the Company expanded its presence through combining the resources of the Company and ICGJ. ICGJ is principally engaged in the investment in, and operation of, B2B technology-related businesses in the IT sector. In March 2001, the Company completed the acquisition of 75% of Whizz-Work Holdings Limited ("Whizz-Work"). With its operations in Singapore, Whizz-Work provides network infrastructure services and hardware reselling. The Company continuously assesses opportunity in the market. To date, no further contracts have been finalized.

The management of the Company is also excited to have strategic business and/or equity relationships with several leading Asian companies, such as Hutchison, Itochu Corporation and Sanyo Electric Co., Ltd.. Our strategic relationships with leading Asian companies are consistent with ICGE's successful track record of partnering with established leading companies such as AT&T, Compaq, Dell, Ford, Comcast, Dupont, GE and Safeguard Scientific.

Change of Director

With the expansion of business scope into Japan through combining the operations of the Company and ICGJ, the Company announced in February 2001 the appointment of Mr. Joseph J. Kim as a Director, President, Chief Executive Officer ("CEO") and Deputy Chairman of the Company.