Management Discussion and Analysis

Turnover

The turnover of the Group for the year ended 30th June, 2004 was mainly attributable to the rental income from the investment properties and operations in trading and manufacturing media equipment and peripherals in the PRC.

Business Review

Post Severe Acute Respiratory Syndrome ("SARS"), Hong Kong property market revived rapidly. The property prices rose more than 30% from the mid-2003. The Group's investment portfolio also benefited from the property revaluation of recording a gain of HK$16 million. The Group's loss on operation in trading and manufacturing segment reported with marked improvement on allowance on bad and doubtful debts and administrative expenses. As a result, the Group suffered a loss of HK$1.7 million for an operation in trading and manufacturing media equipment and peripherals.

With the office market revived upward, investment properties had generated stable rental incomes to the Group.

The Group's staffs and daily administration costs had been trimmed down sharply to HK$11.5 million by a decrease of 53.9% as compared to HK$24.9 million of the past year.

Prospect

The Mainland-Hong Kong Closer Economic Partnership Arrangement ("CEPA") took effect on 1st January, 2004. CEPA aims at attracting investments to and providing a preferential market in Hong Kong for easier access to markets either in the PRC or Hong Kong. Economy in the PRC and Hong Kong is rebounding from the outbreak of the deadly SARS and blooming. The management anticipates the Group will record further gain on property revaluation from the rising real estate market in its Hong Kong investment portfolio. The management is optimistic that the Group's rental incomes from the investment properties would be creeping up gradually.

Due to the Group enjoying harmonious relationship with PRC corporations, the management expects the Group would benefit from the lucrative investment opportunities in the PRC.

Because of the uncertainty of the interest rates, the Group had already sharpened its competitive edge. The Group will continuously adopt stringent cost control measures and strive to enhance the market penetration of the high technology products to generate plausible stable and recurring incomes to the Group.

The Group will be engaged continuous in debt restructuring and capital reduction to make the financial position of the Group more healthy through active negotiations with financial institutions or creditors for flexible repayment terms or an extension of the debt repayment.

Liquidity and financial resources

As at 30th June, 2004, the gearing ratio of the Group increased to 481% (2003: 328%). It was computed on the basis of the aggregate interests bearing loans, which comprise of bank borrowings, loans, overdraft, other borrowings and obligations under finance lease, divided by the amount of shareholders' equity.

As at 30th June, 2004, the Group had short-term loans and overdraft borrowings with banks and financial institutions approximately amounting to HK$49 million (2003: HK$73 million) and long-term borrowings approximately amounted to HK$32 million (2003: nil). The loans were at interests of prevailing commercial lending rates.

All of the Group's bank balances and borrowings were denominated in Hong Kong dollars and Renminbi, risk in exchange rate fluctuation would be immaterial. Thus, the Group does not use any hedges.

Short-term loans, amounting to approximately HK$5.5 million in aggregate, were advanced to the Group by several independent third parties subsequent to the year under review. The management believes such loans advancements would improve the Group's liquidity.

Contingent liabilities

As at 30th June, 2004, a leasing facility amounting to approximately HK$4.61 million (2003: HK$4.61 million) granted by a leasing company to a former related company is secured by a corporate guarantee provided by the Company. Subsequent to the balance sheet date, a claim against the Company as a guarantor was received for the outstanding principal together with the accrued interest of approximately HK$5 million due by the former related company up to 31st December, 2004. Although a counter-indemnity from that former related company was obtained by the Company, it is not certain whether the counter-indemnity will be honoured. Accordingly, the full amount of claim has been accrued and included in trade and other payables at the balance sheet date.

In addition, pursuant to an agreement entered into by the Company, two of its subsidiaries and two independent third parties in February 2003, the Group had disposed of a subsidiary, World Giant Limited ("World Giant"), a company engaged in property investment in the PRC. In this connection, the Company has undertaken to indemnify World Giant for, among others, any increase in the liabilities of World Giant as a result of any claim for taxation arising from any transactions effected on or before the completion date of the above disposal. In October 2004, World Giant received a payment request from the PRC tax authority in respect of PRC property taxes relating to the property held by World Giant in the aggregate amount of approximately HK$8 million, including the late payment surcharge levied by the tax authorities, of which approximately HK$5.8 million was in respect of transactions on or before the completion date. The existing management of World Giant has indicated to the Directors that the amount in respect of transactions on or before the completion date should be paid by the Company. In January 2005, World Giant lodged a claim against the subsidiary of the Company demanding the payment of approximately HK$5.8 million. However, such amounts are fully covered by the amount accrued in the accounts of the World Giant at the time of disposal. Accordingly, in the opinion of the directors and having obtained from the Company's lawyer, the Group or the Company has no obligation to pay the above taxes.

Properties portfolio

The Group's properties portfolio were valued at approximately HK$78 million (2003: HK$62 million) at 30th June, 2004 by AA Property Services Limited ("AA Property") on an open market value existing use basis.

- Property owned in Hong Kong: Revaluation surplus of approximately HK$16 million (2003: HK$1.1 million revaluation surplus) has been credited to the consolidated income statement due to increment in values.

- Properties held for sale in the PRC: There was no decrease or increase in revaluation. (2003: HK$12.4 million revaluation deficits).

Charge on group assets

The Group's properties portfolio, excluding the property held for sale in the PRC, were pledged to secure facilities amounting to HK$78.5 million in aggregate (2003: HK$62.6 million) to certain financial institutions.

Staff and remuneration policies

The Group had about 40 staffs during the year under review. Staffs were rewarded in link of their individual performance, the Group's performance and the prevailing market salary rate. Staffs with outstanding performance will be granted share option.

Material acquisition or disposal

During the year, the Group disposed of Sky Citi-Link ATNT (Holdings) Limited, an associate of the Group prior to the disposal, for a cash consideration of HK$100,001.