

Group results

In the financial year under review, the Group recorded a total turnover of approximately HK\$40.0 million, down from approximately HK\$68.0 million for the previous year. The decrease is mainly due to the disposal of the business of electronic products during the year. The Group made a loss attributable to ordinary shareholders of approximately HK\$245.5 million for the year as compared to a loss of HK\$99.5 million for the previous year. The loss for this year included loss on disposal of subsidiaries and other investments, unrealised loss on other investments and loss on disposal of fixed assets totalling HK\$134.4 million as compared to a gain of HK\$16.9 million for the previous year.

Business review and outlook

(a) Operating results for the year

The Group was principally engaged in the manufacture and distribution of consumer electronic products and the provision of e-business solutions. They each account for 40.1% and 59.9% of the Group's total turnover for the year respectively.

Manufacture and distribution of consumer electronic products

The decrease in turnover from the business of electronic products is mainly attributed to the shrink from the manufacture and distribution of electronic products as a result of the depression in the consumer markets. In order to minimise further losses in this area, the Group has disposed of this operation in November 2000.

Provision of e-business solutions

The provision of e-business solutions expanded and a new revenue stream of the Group in this business started since January 2001. The turnover from the provision of e-business solutions was increased by HK\$20.1 million to HK\$24.0 million for this year.

Even though the Group has disposed of its business of electronic products during the year, Hong Kong is still its major market for its operations. The turnover of approximately HK\$34.8 million has been derived from local operations out of a total turnover for the Group of approximately HK\$40.0 million.

(b) Employees

As at 31 March 2001, the Group employed 25 full time staff. Staff costs were HK\$61.9 million for the year ended 31 March 2001 (2000: HK\$24.2 million). Remuneration includes monthly salaries, performance-linked year-end bonuses, share options and the retirement benefits under Mandatory Provident Fund Scheme.

(c) Capital structure and treasury policy

As at 31 March 2001, the Group had total assets of approximately HK\$62.9 million, comprising other investments of approximately HK\$51.8 million, bank and cash balances of HK\$9.2 million and other assets of HK\$1.9 million, which were primarily financed by shareholders' funds of approximately HK\$52.8 million.

As at 31 March 2001, the Group did not have any mortgage, charge, bank overdrafts, bank loans, other loans, obligations under finance leases or contingent liabilities.

(d) Significant investments

As at 31 March 2001, the major investments held by the Group are DigiTel Group Limited ("DigiTel") and POPstar Communications Inc. ("POPstar"). DigiTel is a listed company whose shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. The principal activities of DigiTel is the provision of system integration services. POPstar is an unlisted company which is principally engaged in the provision of IP-messaging solutions. There was an unrealised loss on the Group's other investments of approximately HK\$34.4 million for the year ended 31 March 2001.

(e) Foreign exchange exposure

Substantially all the revenues, expenses, assets and liabilities of the Group are denominated in Hong Kong dollars or Reminbi. Foreign exchange exposure of the Group is minimal.

Prospects

The Group has developed expansion plans for all core businesses and has extended its scope of investments to projects with attractive yields in the Greater China region. The Group aims at gradually transforming into a high-growth company in the near future. Initially such plans will be funded by the financing resources in the global capital market. The management has maintained not only a close relationship with global technology players interested in the PRC, but also a solid bond with the Group's PRC shareholder based in Shanghai. Recently, the Group has even successfully invited DigiTel to be its strategic investor.

DigiTel, whose shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, is an integrated Internet solution provider with extensive experience in system and network integration in Hong Kong and the Greater China region. It also has widespread expertise in offering on-line application solutions to small and medium enterprises. The Directors consider the investment made by DigiTel a vote of confidence in the prospects of the Group. It foretells that the Group's ongoing strategy in infrastructure development for communication networks can be rewarding. Details of the transaction was published in the announcement dated 28 March 2001.

The Group's future sphere of activity is the PRC market. The Group strongly believes that the PRC will carry through its high economic growth rate into the coming decade and that the convergence of technologies will play a major role in the country's future economic development. An additional opportunity is expected to emerge in the protected industries of telecommunications, multimedia and the Internet with the PRC's entry into the World Trade Organisation. The Group is prepared for a period of rapid expansion based on its view of the importance of consolidation of the PRC economy. It may take a while before the PRC market is fully deregulated to allow open competition in various industries related to telecommunications, multimedia and the Internet. However, opportunities may arise as soon as market deregulation has begun. Therefore it is very important for the Group to get ready to capture any such emerging opportunities. The Group has positioned itself to take advantage of this trend in coming years.

After its rapid development in the 1990's, the media industry in the PRC is now in the high growth phase. Apart from being a watchdog for public scrutiny, social accountability and cultural change, the industry also presents an enormous market with attractive returns and unlimited opportunities. In light of the development trends in the global arena, based on its current conditions and future prospects, the PRC media market, being among the largest markets in the world, is expected to become the next favourite for the global capital market. The dramatic evolvement of the Internet technologies, the information highway and the media market gives rise to new challenges to the media industry. In order to stay ahead of the escalating competition, players in the industry have undertaken a host of technological upgrades to transform themselves into new vehicles of mass communication. Such technological upgrades include the adoption of broadband broadcasting technologies and the digitalisation of multimedia production. The shift towards broadband technologies and wireless accessibility in turns guarantee massive opportunities for the Group.

In view of the developments as mentioned above, the new management intends to pursue ahead in the niche market of media service provision, which allows the Group to fully capitalise on its competitive edge. Taking its existing businesses as the foundation, the Group intends to develop into a provider of broadband platforms and multimedia products to mainly the media industry. High quality products and services, including primarily media-related networking solutions, digitalisation solutions for media operators and multimedia products, will be delivered to create maximum value to the customers. The Group considers that there are huge market potential and unlimited opportunities available to the provision of media services, particularly in the absence of competitors in this sector in the PRC. It is the intention of the Group to work together with its partners in exploring such challenging opportunities for realising its power of innovation in extending the core business. Ultimately, the Group aims at striving for the maximum returns to its shareholders. In addition, the new business pursuit will probably generate substantial financial resources to support the implementation of the Group's long term development plans.

The Group has already completed its restructuring through consolidating the business, market and human resources previously owned by its parent company. By doing so, the Group has managed to reposition itself to leverage on its competitive edge to the fullest extent. Meanwhile, it has strengthened its core business and competitiveness through aggressive investments by way of merger and takeover as well as other means. Besides, the new shareholder has brought to the Group a pool of experienced, innovative and creative talents in technology development. The new management has also provided a high quality management and operation mechanism to the Group, thus reinforcing its capability in sustaining its long-term competitiveness. With its improved business strengths following the restructuring, the Group will be more responsive in reacting to changes in demand of the markets in Asia Pacific, particularly the PRC. The potential resultant rapid expansion of the Group is likely to create more value to the shareholders, thus driving a substantial increase in its market capitalisation. The management believes that the Group is able to deliver profits to its shareholders as soon as the Group has placed itself on the path of positive growth and has come to grips with the key to success in the businesses it is engaged in.

During the financial year ended 31 March 2001, the Group commenced a major corporate restructuring. On 19 April 2001, there was a change of substantial shareholders to Leap Network System Inc. The Group has transformed into a company focused on the convergence of telecommunications, multimedia production and the Internet technologies, financial resources reallocation and business restructuring were initiated after the close of the financial year, including a change of its management team. For that reason, the financial results do not reflect the future potential of the Group or the imminent introduction of new business lines.

In 2000, the overall Hong Kong economy could be described as in the process of gradual recovery, even though its pace was subdued by in the second half of the year due to reduced enthusiasm for the IT sector, uncertainties in housing supply and in the direction of economic development. Nevertheless, the economy was still back on the track of positive economic growth, with its unemployment rate on the decline.

Despite the fact that market sentiment has turned around and the Hong Kong economy is on the road to recovery, the new management decided to terminate part of the non-core business to plough back financial resources. In the year ahead, the new management is looking to explore business opportunities to raise cash for future development.

A note of thanks

Finally, I would like to take this opportunity to thank all members on the board, including those who have retired in this financial year, for their invaluable contribution. I would also like to extend my appreciation to our shareholders, customers and business partners for their continued support and our staff for their hard work and dedication. I believe very strongly that, together, we are on our way to build a prosperous and sustainable business.

Hon Tung Keung

Chairman and Chief Executive Officer