

Management Discussion and Analysis

BUSINESS OVERVIEW

The audited net loss of the Group for the year ended 30 June 2001 amounted to HK\$46,989,301. The Board has resolved not to recommend payment of a dividend for the year.

Since the existing management took over the Group and after studying the Report of the Independent Investigator, Messrs Charles Chan, Ip & Fung CPA Limited appointed by the Board in August 2001, it has been reviewing the Group's existing business operations and identifying ways to improve them. It is reviewing the cash flow position of the Group and will consider raising funds by means of issuing new shares of the Company and negotiating with various banks for new and/or additional banking facilities. Furthermore, the Board would also like to note that it is in the course of identifying suitable projects and/or investments that would be reasonably expected to generate profits and/or have potential for capital appreciation. The Group may acquire some of these projects and/or investments. The consideration for such projects and/or investments would be satisfied by means of the issue of new shares of the Company and/or by being granted new and/or additional banking facilities.

Manufacturing and trading of electrical equipment and provision of electrical engineering and contracting services

For the year ended 30 June 2001, the Group recorded a turnover of approximately HK\$198,000,000 which was mainly contributed by the manufacturing and the trading of electrical equipment and the provision of electrical engineering and contracting services. Due to the poor market demand for consumer electrical products and adverse economic conditions, sales of such business operations dropped by approximately 10% as compared with those of last year. However, the gross profit increased slightly by 2%.

Trading of investments in listed securities

Due to unfavourable market conditions, the Group recorded a net loss in the trading of investments in listed securities of approximately HK\$7.7 million for the year ended 30 June 2001.

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS/DISPOSALS

In February 2001, the Group acquired a subsidiary which is engaged in promoting and developing a computer based Global Positioning System in Hong Kong and the People's Republic of China. During the year under review, the new investment in this subsidiary did not contribute any turnover or profit to the Group as when the subsidiary was bought the business of the subsidiary was and is still in its development stage.

Management Discussion and Analysis *(Continued)*

During the year, the Group ceased its businesses in the manufacturing and trading of building materials and disposed of its entire equity interest in Profit Sky Investments Limited (“PSI”), a wholly owned subsidiary of the Group, on 9 December 2000, to an independent third party at an aggregate consideration of HK\$1,000,000.

The aggregate net loss arising from the disposal of the PSI Group amounted to HK\$2,281,444. The operating results of these subsidiaries are presented as discontinued operations in Note 6 to the financial statements for the year ended 30 June 2001.

Liquidity, Financial Resources and Funding

The Group had net current assets of HK\$52,502,258 and an insignificant amount of borrowings but had a material long outstanding liability at the balance sheet date. The Net Asset Value of the Group as at year end was HK\$74,455,312. The gearing ratio, calculated on the basis of total liabilities over total shareholders’ funds as at 30 June 2001, was approximately 1:1.

Employees

The Group employs approximately 80 staff in Hong Kong. Total staff costs for the year under review amounted to approximately HK\$14,581,175. The Group’s remuneration packages are generally structured by reference to market terms and individual merit. Salaries are normally reviewed on an annual basis based on performance appraisals and other relevant factors.

The Company maintains a share option scheme under which share options are granted to certain eligible directors and full-time employees. Details of the share option scheme are set out in Note 27 to the financial statements.

Charges on Assets, Unsecured Debts and Contingent Liabilities

At the close of business on 30 June 2001, the purported unsecured debts of the Group included an amount due to an unconsolidated subsidiary of HK\$26 million, an amount due to an investee company of HK\$4 million, an amount due to a director of the company of HK\$4.25 million (which was settled subsequent to 30 June 2001) and an amount due to a subsidiary’s director of HK\$2.1 million. In addition, the Group had a finance lease of HK\$0.4 million.

During the year ended 30 June 2001, certain subsidiary companies of the Group were given secured general banking facilities of approximately HK\$12,359,000 (none of which was utilised by the Group) by pledging the properties of a subsidiary of the Group and by giving a corporate guarantee.

Management Discussion and Analysis *(Continued)*

Certain subsidiary companies within the Group had pledged bank deposits of approximately HK\$5.1 million to secure general banking facilities granted to these subsidiary companies of the Group which had not been utilised as at 30 June 2001.

Changes in Directors and Management subsequent to 30 June 2001

On 4 June 2001, 369 Holdings Limited purchased 300,000,000 shares in the Company and became the substantial shareholder of the Company. On 12 July 2001, First Securities (HK) Limited, on behalf of 369 Productions Limited, made an voluntary cash offer to acquire all of the shares in the entire issued share capital of the Company (the "Offer"). The following changes to the directors and management of the Company occurred as a result of the Offer:

- (a) on 31 July 2001, upon dispatch of the offer document, Mr. Chen Chak Man, Mr. Ip Yun Kit, Mr. Chan Kin Sang, Mr. Ng Kai Shing, Mr. Clive William Baker Oxley, Mr. Koh Tat Lee, and Mr. See Lee Seng, Reason were appointed as directors of the Company;
- (b) on 29 August 2001, upon the close of the Offer, Mr. So Yiu Cho, James, Mr. Yau Tak Fu, Mr. Chan Sze Tsung, Mr. Lee Kwok Leung, Mr. Tsang Wai Kwok and Mr. Ho Kai Wai, Francis, resigned as directors of the Company;
- (c) on 11 October 2001, Mr. Yeung Kang Lam (who, through Interactive Spirit Limited, was formerly the controlling shareholder of the Company before 4 June 2001) and Ms. Yau Wai Fan resigned as directors of the Company; and
- (d) on 11 October 2001, Mr. Lau Kwok Hung was appointed as a director of the Company.