



MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results:

For the period under review, the Group recorded a turnover of approximately HK\$33.2 million, representing a decrease of 44.9% when compare with the previous corresponding period. Yet, this also represents a 57.0% increase over the 2nd half of the year ended 30th June, 2001 of approximately HK\$21.1 million.

Gross profit margin, meanwhile, has continued its declining trend to 5.1% comparing to 11.9% for the corresponding period of 2000 and 7.2% for the 2nd half of the year ended 30th June, 2001.

Loss attributable to shareholders was amounted to approximately HK\$38.1 million (2000: approximately HK\$18.8 million). Such increase of loss was mainly arose from the loss of investments due to the drop of the share prices in listed securities as a result of the downturn of the stock market in Hong Kong, and increase of the administrative expenses due to our new business set up in 2001 such as wap business and data center.

Loss per share is HK5.87 cents for the period ended 31st December, 2001 comparing to the loss per share of HK4.41 cents for corresponding period ended 31st December, 2000.

Business Review:

In line with the investment strategy as depicted in the annual report of 2000/2001, the Group has focused on its key investment.

While continues adopting the prudent move of making provision when deem necessary, a further provision of HK\$15.9 million on listed investments had been made.

The operating environment remained difficult and in fact, becomes even more difficult in view of the ever-mounting liquidation of companies and the 9.11 incident.

The Group has followed the prudent financial policy and the lower gross profit margin (31st December, 2001: 5.1%; 30th June, 2001 7.2%) in order to minimize the recoverability problem of the customers. The lower gross profit margin in this period has tried to achieve the win-win situation of the Group and the customers.

Besides, the board is of the view that the trading business, which only has a lower profit margin, would be of lower priority and more resources would be placed on the three major investments (see below) during the year ago to better reflect/ explore the hidden revenue generating ability of those projects.

For Michael Lai Production Holdings Limited (“Lai”),

Lai is progressing much slower than expected.

Orders have been received from reputable international companies, such as Kraft and others for the design and/or promotion activities.

Headcount has been increased to accommodate the increasing business grasped.

For Ancora Worldwide Limited (“CWAP”),

CWAP advertising business has been seriously affected by the burst of the dot com companies.

Recently, CWAP has co-operating with the Asia Television Limited in short-listing candidates to participate in the special version of “Who wants to be a millionaire”.

The response of this program has quite satisfactory and revenue has been derived from those players in short-listing exercise via pre-paid cards, internet or Short Message System (“SMS”).

For Digital Nunet Exchange Limited (“Dnunet”),

Due to some technical difficulties that had been resolved finally and the delay in granting the relevant licenses, the development of Dnunet had been delayed to the 4th quarter of year 2001.

Data Centers have been established at both Hong Kong and Shanghai with area of approximately 1,000 square feet and 7,500 square feet, respectively for providing the value added service.



Relevant licenses including Internet Data Center (“IDC”), Internet Service Provider (“ISP”), Internet Content Provider (“ICP”), Short number input, have been obtained. 1st tier carriers of the United States and Taiwan have been the Dnunet’s customers in Shanghai.

Taking the advantage of the strong tie between Dnunet and China Telecom, the response on the bandwidth to the PRC is quite good. However, the profit is quite slim due to the strong extensive competition.

Besides, Dnunet has started selling to corporate under the brand/pre-fix of IDD1629, and initial response is quite positive and revenue picking up quite fast.

Dnunet has, meanwhile, out-beaten a number of well-established multinational conglomerates, such as IBM; Nortel; PCCW, etc. and been granted the exclusive consultant for the IDC project of Guangzhou Mobile (“GMCC”).

Miscellaneous

Meanwhile, the Group has identified additional business opportunities.

- (a) 5% interest in a hi-tech logistic company, Well Pacific Investments Limited; and
- (b) 7.85% interest in a corporate advisory services company, International Capital Network Holdings Limited, which is successfully listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited in November 2001.

Save the aforesaid, the operation of the Group has not changed materially from that of year 2000/2001 and disclosed in the respective reports.

The Group’s Liquidity and Financial Resources:

As at 31st December, 2001, the Group had cash and cash equivalents of approximately HK\$36.2 million (as at 30th June, 2001 of HK\$120.4 million). Moreover, the shareholder’s funds was of approximately HK\$205.1 million (as at 30th June, 2001 of HK\$237.6 million) and outstanding bank loan and other borrowings was only of approximately HK\$4.2 million (nil as at 30th June, 2001); and accordingly, the gearing ratio was only 0.02 (nil as at 30th June, 2001).

The liquidity of the Group has further been improved after the successful completion of the rights issue of approximately HK\$105 million in March 2002.

As the majority of deposit, income and expenses are denominated in either Hong Kong or United States dollars, the Group has not adopted any hedging.

Save as disclosed in the financial statements for the period under review, the Group has no other contingent liabilities.

With a NAV of approximately HK\$310 million (after rights issue exercise in March 2002) or a NAV per share of HK\$0.039 and the market price of HK\$0.011, the Company's share is trading at a discount of approximately 72%.

Outlook and Prospects:

The Group is able to save certain management as well as promotion cost. To say for instance, the IDD1629 has also been promoted in the show of "Who wants to be a millionaire" and serve other related companies.

Irrespective, the Group is conducting a re-engineering exercise in streamlining the operation and in providing appropriate remuneration to worthy employees – mainly revenue/profit related.

On the trading business, the business environment for trading of electronic components would remain difficult and tough. As the Group will still only deal with some creditworthy customers, a substantial jump cannot be achieved in short period of time.

The prospect of Lai is still quite optimistic, especially after the Mainland China entered the World Trade Organization ("WTO"). Many companies will try to enter the great China market to promote their products. In this case, number of advertising and/or promotion orders will increase dramatically. For the entertainment business, the Group has also cooperated with other reputable professional to develop the China market. The product will be more diversity, such as 3-D graphic design and computer animation.

CWAP's program with the ATV – "Who wants to be a millionaire" would

- a) extend from purely Guangdong province to the whole PRC; and
- b) extend the short-listing to Macau by alliance with operators in Macau.



Up to now, the response of this program has quite satisfactory and CWAP can still follow its strategic plan. Apart from this program, CWAP has also established the software department and designed some tailor-make office automation software for the highly potential market and tried to achieve the core competence for the Group.

Market potential for Dnynet is even more promising, Dnynet would develop areas in:

- a) niche market networking;
- b) selling to more established carriers; and
- c) justified corporate.

Additional investment for HK\$50 million would be vested for machines and working capital, and such finance would be internally provided.

Employment and Remuneration Policies:

As at 31st December, 2001, the Group employed approximately 68 employees. The Directors of the Group reviewed remuneration policies regularly. The structure of the remuneration packages would take into account the level and composition of pay and the general market conditions in the respective countries and businesses.