

RESULTS

The consolidated turnover for the Company and its subsidiaries (the "Group") has reduced to approximately HK\$62.5 million (2001 : HK\$90.6 million), representing a drop of 31.0% when compared with last year. Net loss for the year ended 30th June 2002 was amounted to approximately HK\$191.0 million (2001 : HK\$74.1 million). The increase of loss was mainly due to the impairment loss on goodwill previously dealt with in reserve which was charged to the income statement in this year as the Group adopted a new Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants.

The Board of directors does not recommend the payment of a final dividend for the year ended 30th June 2002 (2001 : Nil).

REVIEW OPERATIONS

Trading

The turnover of the trading business dropped from HK\$76.5 million to HK\$50.0 million was mainly due to:

- a) the departure of one director resulting in lesser market information;
- b) to play save, especially in view of the declining in electronic industry worldwide and the request for lengthened credit extended; and
- c) in line with the Group's policy to gradually withdraw from this industry characterized by vulnerable to economic cycle, high credit risk and low profit margin.

Owing to the low profit margin and high credit risk, the Group has reduced its business in this sector and business would only be transacted with justified customers. Furthermore, the Group has also put extra effort in tightening the administrative expenses, thus, though the turnover and the gross profit margin (2002 : 2.4%; 2001 : 5%) decreased in the year 2002, the net loss in trading business is smaller than the preceding year.

It is anticipated that the Group would continue its prudence policy in granting credit to only justified clients and enhance cost control, and expected the better result in next year.

Securities and Finance

The turnover of securities and finance businesses of the Group recorded a slightly decrease of 12.9% to HK\$8.1 million (2001 : HK\$9.3 million). The decrease in turnover was recorded in comparison with last year due to the tight investment environment.

During the year under review, despite the Group's prudent move in lending on to customers of

- a) interest de clientele;
- b) major shareholders of listed companies;
- c) securities being pledged (with another 100% margin);
- d) preparing to get a listing in either the Main/Growth Enterprise Market boards of The Stock Exchange of Hong Kong Limited or the Over The Counter market of the United States.

Provision for doubtful debt has still been provided. This is a result of either the market sentiment has changed since September 11 incidents, the market scandal over the accounts of giants, the general downturn in the equity market world-wide, etc. or a combination of both.

In the coming year, the Group has also tightened its credit control and enhance to recover the "doubtful debt" in order to enjoy a reversal of provision made on before.

Investment

Investment remains a difficult aspect of the Company in view of the relative stage of target investee companies, the drastic changes in economic/market situation, the favor of investors, the potential "new" entrants to the market in competition with the portfolio companies, the various factors lead to the success of the revenue models, the practical difficulty in enforcing the model, and the like. It is a sheer impossibility even for very professional venture capitalists to say for sure the success of each potential investee company. Yet, we would endeavor to try our best in pinpointing our justified companies.

To say for instance, the Board has rejected a number of funds request of different industries, stage of development, which include,

- a) setting up pay phones in the PRC;
- b) screening off illegal program at the television programs;
- c) trading of specialized chemical;
- d) pharmaceutical products;
- e) the tender web site;
- f) etc..

as the Board is not comfortable as to the representation of management, the legality of certain performance, the outlook of the industry, the insufficiency manpower to participate or the lack of synergy effect.

The investment performance humbly speaking, is not that positive – written off of investment on and off.

Would adopt additional measures to safeguard the potential investment, including, but not limiting to,

- 1) restricted to companies that can bring in synergy effect to the Groups' other investee companies;
- 2) request 2 valuation reports as a reference and comparison;
- 3) appoint auditors to conduct due diligence, when necessary;
- 4) take a "longer" time to see whether the performance is in line with what forecasted; and
- 5) investing in companies at the later stage of development, say, pre-IPO or phase II or III of development rather than at the seed stage or phase I.

At the same time, the Group would also pay additional emphasis on those companies that have already invested by sending staff to assist the operation, in particular, the financial aspect. It is hope that through these measures, the Group can have a better understanding on the investee companies and the warning signal for appropriate actions as soon as practicable. In the medium run, those investee can turn around/get a listing and benefit the shareholders.

Entertainment, advertising and design services

The business performance is not good but progressing.

To avoid the risk of encountering storms, raining days; thereby possibly poor response in ticket selling or a loss be incurred, the Group has not arranged any movie star concert during the last year. Yet, the Group is pleased to announce that it is a co-organizer of "F4" concert in the PRC.

To take advantage of the official licence granted, the Group would place more emphasis in this area via requesting more the participation of the PRC partner.

The revenue from promotion of rising talented stars in both the PRC and Hong Kong has also achieved some breakthrough. Relevant candidates have been identified and they have been gradually introduced to the market. For example, the "representative" for the "Sugar" brand of sugars in the PRC; the cover girl in vacation magazine in Hong Kong named "Weekend Weekly", "Hi-Tech Weekly" and the "representative" for "Student Union Travel". By the way, she has also been designated a "representative" for the "Roadshow", another listed company in the Stock Exchange of Hong Kong Limited and the ads agents of Kowloon Motor Bus. The revenue from this stream would be gradually turning in.

The advertising and promotion of client's image in the PRC and Hong Kong would be a promising stream and the Company would placed more emphasis in this area following the entry of the PRC to the World Trade Organization (the "WTO"). Result has been gradually obtained, for example, as the promotion consultant to a leading instant food manufacturer in Taiwan for its PRC market.

Training program for budding artists in the PRC has been delayed due to the enormous resources to be devoted and the inability to find suitable partner as a backup and on a put through basis.

The Group has meanwhile been granted the exclusive distribution agent for the PRC, Taiwan and Hong Kong market for a Malaysian 3-D animation cartoon program named "Naughty Sky-world" or "反斗天庭". Initial response from both the PRC and Taiwan is quite positive and orders from the PRC and Taiwan are anticipated to be received in these few months.

To capture this market, the Group has also assisted in distribution of selected television programs, in particular those from the Asia Television Limited to various free-to-air terrestrial television or cable televisions. Result has yet to be seen.

Telecommunications

During the year under review, the telecommunications business commenced in January 2002 and recorded a turnover of approximately HK\$3 million. The business had run a loss of approximately HK\$6.7 million was mainly due to the absorption of set-up costs.

The telecommunications business is traded through our subsidiary, Digital Nunet Exchange Limited (the "DNunet"), which is a joint venture between the Company as to 55% and Nunet Global Inc. as to 45%.

Owing to the better connection and the steady increase of turnover, the Group expected that the telecommunications business will start to enjoy the outcome in next year.

WAP

The response to Wireless Application Protocol (the "WAP"), and in fact, the GPRS or 3G, is slower than anticipated. The demand of WAP for enterprises users has hence been delayed and smaller than originally planned.

A loss was incurred due primarily to the advertisement expenses of HK\$1.8 million incurred for promotion exercise without proper following up in securing business/membership and the then revenue model does not work:

- a) Providing technology and support for WAP-related mobile phone operation – Despite the contract being signed for provision of such service to Guangdong Mobile, the same has delayed, probably due to the changing emphasis of Guangdong Mobile;
- b) Distributing the securities software – The securities analysis software response, despite the initial favorable response, perhaps due to the free of charge trial period, is also beyond satisfaction. The Group, in view of the aggressive advertisement cost to be incurred associated with the promotion, has abandoned the said program;
- c) Advertisement – due to the luster response of the securities software, the downturn in the "dream" of ICP and the poor economic situation throughout the world that reduced the general spending on the promotion budget, the income from advertisement has practically come to a zero;
- d) M-commerce – due to the still infant stage of e-commerce, the m-commerce is yet to come; hence, even the Group is well prepared to accept the challenge, the demand for m-commerce is not that positive. Yet, the Group is proud to note that we are discussing with a U.S. based multi-national conglomerate for a M-POS (mobile Point of sales) project in Hong Kong. Once the budget has been obtained from its U.S. headquarter, the same would be rolled out in Hong Kong followed by Macau and possibly in PRC;
- e) Universal SMS platform – despite the successful rollout, the same has also been introduced by its competitors. The market is increasing competitive and our edge would be in the PRC. Yet, the Group would incorporate this feature with the fellow subsidiary company, DNunet in introducing SMS together with competitive IDD price as another value added feature to the customers.

Meanwhile, the Group has switched to earn some revenue to sustain the survival momentum – sponsoring and short-listing the candidates to attend the “Who want to be a Millionaire” program of the Asia Television Limited in Hong Kong. The short-listing exercise is via the Short Messaging System (the “SMS”) that the company has profit sharing with the China Mobile. Out of the various participating members of the Guangdong Mobile Communication Corporation (the “GMCC”), the Company is glad to note that it is rated ~20th by the GMCC amongst the more than 100 participants in the Monternet (夢網). The GMCC evaluates and rates a company based on the following criteria:

- a) total revenue (總收入得分);
- b) growth in revenue (收入增長);
- c) quality of customer service (客戶服務質量);
- d) networking and information content management (網絡和信息內容管理);
- e) billing and reporting quality (計費和報表質量);
- f) others (其他);

With proper result, the Company would include other games, such as “I date U”; “Doraemon”;...

While

- a) taking experience of the revenue generated from the “Who wants to be the Millionaire” and
- b) to save money and more importantly, time in developing the software in house, the Company has adopted the policy of co-operating with games providers by adopting the policy of
 - a) membership system in giving members the relevant platforms to transact; and
 - b) profit sharing with games providers.

In view of the closer than ever relationship with the GMCC due to the award of the consultancy job, and the so far favorable result in being the consultant of the GMCC IDC project via the consultant of DNunet, the Group would rely more on the above mentioned membership scheme and a conservative positive outlook is looking forwarded.



MISCELLANEOUS

The Group has invested in some other companies. Part of them has got listed and their performance is reported in their respective annual reports. Please refer to them for detail.

The Group has also invested in other companies, progress of which is mixed – good or bad. Nonetheless, the relative successful percentage is larger than the pioneer in the field – those professionals in the silicon value achieves a result of less than 10%.

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

THE GROUP'S LIQUIDITY AND FINANCIAL RESOURCES

As at 30th June 2002, the Group had cash and cash equivalents of approximately HK\$11.9 million (2001 : HK\$114.9 million) and net asset value of approximately HK\$246.4 million (2001 : HK\$237.6 million). The outstanding bank loan and other borrowings was only of approximately HK\$4.0 million (2001 : nil) and accordingly the gearing ratio was only 0.090 (2001 : 0.025).

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

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

EMPLOYEES AND REMUNERATION POLICIES

The Group had approximately 46 employees as at 30th June 2002. The Group's remuneration policies are in line with prevailing market practices and formulated on the basis of performance and experience of the employees. Salaries are reviewed annually based on performance appraisal and other relevant factors.

The Company also maintains a share option scheme, pursuant to which shares options are granted to directors and senior executives to provide them with incentive interest in the growth of the Group.

DISCUSSION ON QUALIFICATION BY AUDITORS

The auditors have qualified the Company's performance with respect to one (1) loan receivable and one (1) investment.

(A) The Prudent move of making provision on a short-term loans receivable

The same was entered into by year 2001 based on the knowledge of the borrower in the field and the good credit reference/support from reputed persons in the field. In fact, the initial repayment record was good. The subsequent loans, however, had turned sour probably due to the change in economic sentiment and the borrower has delayed in repayment of both principal and interest. Several demand letters including a formal one by solicitor had been issued. The outstanding has still not been repaid despite overdue for more than half year. Finally, a restructuring agreement has been entered into on 23rd October 2002.

On the other hand, the auditors are not satisfied on the repayment power of the borrower.

In view of the aforesaid, *the Board of directors has adopted a prudent move and recommended the FULL PROVISION of the whole loans outstanding.*

Despite numerous discussions and efforts in explaining the case to the auditors, the Board is surprised to note that the auditors' report is qualified as to the appropriateness of the provision.

The Board, nonetheless, would follow up the repayment of the borrower and written back upon the repayment has been effected.

(B) The Prudent move in writing off an investment

Last year, the Company has invested in the publisher of a Taiwan magazine which founder is an experienced publisher and general manager of amongst the most reputed Japan venture capital. The consideration of the investment was based on the potential and the valuation report from an independent Taiwan valuer with a discount.

Initial result of this company was positive – the issuing of "DGM" magazines, the successful grasping of the right of the official exhibition magazine of the Cebit-Asia in Shanghai, the Airline Information Newspaper (航空資訊報) of Taiwan. The said company was also discussing with the corresponding airport newspaper issuers in the PRC for alliance.

The cash inflow, however, fell short of expectation and the company was in need of additional working capital and requested our injection of additional funds in form of money loan or additional equity.

The Board holds a prudent view in not throwing additional against the uncertain and requested the other shareholders to do. However, the other shareholders (also big names and listed companies in Taiwan) also adopted the same strategy and thus the case had dragged on since June 2002.

Therefore, the company was then placed on a “dormant” basis and all staff had been laid off in June 2002 to minimize an unnecessary fund outlay. According to the law of Taiwan, when a company has been dormant for one year, the name would be strike off by the government.

While awaiting the change in mind by other shareholders or locating new investors, *the Company has adopted the prudent move to make a Full Provision of the whole investment* in view of the absence of any staff and the discontinuation of the operation since June 2002.

All the relevant information and actions including,

- 1) The various magazines, special editions (Cebit-Asia) and newspapers prepared by subject company had been submitted to auditors for review;
- 2) Inviting the auditors (or their correspondence in Taiwan) to the then Taiwan office for a physical inspection to confirm that the company had already moved out;
- 3) Providing the direct contact by the auditors with the key ex-employees, including the key man (founder) of the company for information required; and
- 4) The availability/confirmation from an accountant in Taiwan that the company’s kits etc. have been held by them and the company is on a “dormant” status.

However, the auditors do not specifically lay out the requirement in order for them to clarify the situation and the Board is hence not able to guess their exact requirement.

Once again, the auditors’ report is qualified as to the appropriateness of the provision.

By order of the Board

Chan Tak Hung

Chairman

Hong Kong, 24th October 2002.