

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

The audited net loss of the Group for the year ended 30 June 2003 amounted to HK\$45,279,000.

The Management is reviewing the cash flow position of the Group and will consider raising funds by means of issuing new ordinary shares of the Company and negotiation with various banks for new and/or additional banking facilities. Furthermore, the Board is at all times identifying suitable projects and/or investments that would be reasonably expected to generate profits and/or have potential for capital appreciation. Should they be materialised, the consideration for such projects and/or investments would be satisfied by means of the issue of new ordinary 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 2003, the Group recorded a turnover of HK\$69,340,000 in respect of 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, turnover of such business operations dropped by approximately 33% as compared with those of last year and the gross profit decreased by 23%.

Trading of listed investments in securities

For the year ended 30 June 2003, the Group recorded a turnover of HK\$17,544,000 and realised a profit of HK\$3,705,000 in respect of trading of listed investments in securities.

Entertainment business

During the year ended 30 June 2003, the Group started to carry on entertainment business which was still in the early developing stage and as a result, a loss of HK\$2,386,000 was incurred for the year.

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS/DISPOSALS

During the year, a loss of HK\$3,991,000 was realised on disposal of an unlisted investment which had been fully provided for in prior years and a loss of HK\$9,200,000 was also realised on the disposal of the interest in an associate which was engaged in property development. In April 2002, the Group invested in a joint venture, which engaged in the provision and distribution of musical and related products in Beijing with CITIC Cultural and Sports Industry Co., Ltd. The joint venture was expected to generate revenue to the Group for the current year. However, due to the unforeseeable circumstances in connection with Severe Acute Respiratory Syndrome in Beijing and the People's Republic of China and the global economic downturn, the project had been postponed. For the sake of prudence, a provision of HK\$6,922,000 for the diminution in value of the investment in the joint venture was made.

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

The Group had net current assets of HK\$55,324,000 as at 30 June 2003. Total bank and other borrowings amounted to HK\$10,961,000 as at 30 June 2003 and the Group had convertible notes of HK\$15,000,000 which, if not converted, will be due in June 2004. The net asset value of the Group as at year end was HK\$60,777,000. The gearing ratio, calculated on the basis of total liabilities over total shareholders' funds as at 30 June 2003, was approximately 0.8.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES AND RELATED HEDGES

As at 30 June 2003, substantially all of the monetary assets of the Group were comprised of cash and bank balances and pledged time deposits, which denominated in Hong Kong dollars. Exchange risk of the Group is minimal.

As at 30 June 2003, the Group did not have any foreign currency investments which have been hedged by currency borrowings and other hedging instruments.

EMPLOYEES

The Group employs approximately 78 staff in Hong Kong. Total staff costs for the year under review amounted to approximately HK\$13,562,000. 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 may be granted to certain eligible directors and full-time employees. Details of the share option scheme are set out in Note 27 to financial statement.

CHARGES ON ASSETS AND CONTINGENT LIABILITIES

As at 30 June 2003, the leasehold land and buildings of a Group's subsidiary were pledged to a bank for banking facilities which were subject to guarantees given by a subsidiary and have been utilised to an extent of HK\$2,899,000. A subsidiary's bank deposits of HK\$3,000,000 had been pledged to secure general banking facilities granted to the subsidiary.