



## MANAGEMENT DISCUSSION AND ANALYSIS

### REVIEW OF OPERATIONS

Turnover of the Group for the six months ended 31st December, 2003 was HK\$75.0 million as compared to turnover of HK\$131.3 million for the six months ended 31st December, 2002. There was a significant decrease in turnover as that for the six months ended 31st December, 2002 included HK\$111.3 million on provision of telecommunication services which business was disposed by the Group during the last financial year ended 30th June, 2003. The gross profit for the six months ended 31st December, 2003 was HK\$4.2 million as compared to HK\$39.9 million for the six months ended 31st December, 2002.

During the six months ended 31st December, 2003 the Group showed an improvement in operating results and net profit. The gain from operations for the six months ended 31st December, 2003 was HK\$2.5 million while the Group recorded a loss from operations for the six months ended 31st December, 2002 of HK\$1.4 million. Net profit for the six months ended 31st December, 2003 was HK\$2.2 million as compared to net loss of HK\$6.5 million for the six months ended 31st December, 2002.

During the six months ended 31st December, 2003, the Group was not materially expose to exchange risk.

### LITIGATION

The Company issued a writ of summons in the Court of First Instance in Hong Kong against China Media International Group Limited ("CMI") on 18th February, 2004 to claim for, among others, damages for breach of the sale and purchase agreement (the "Sale and Purchase Agreement") in relation to the sale and purchase of 35% of the issued share capital in CMEP Limited ("CMEP") dated 2nd January, 2003 and the shareholders agreement dated 10th February, 2003 in respect of CMEP, both entered into between the Company and CMI, including (i) the amount equivalent to 35% of the difference between the net profit of CMEP for the period from the date of its incorporation to 30th June, 2003 and HK\$100 million and (ii) the amount equivalent to 35% of the corresponding amount after tax net profit on the difference between the actual amount of account receivables (as shown in the management account of CMEP for the period from the date of its incorporation to 30th November, 2002) recovered within 9 months after the date of the Sale and Purchase Agreement and 100% of the said amount of account receivables.

The writ has been served on CMI on 19th February, 2004 and the litigation is currently in progress.