OPERATIONAL REVIEW

TransOnline

TransOnline is the fruit of the Company's effort in 1999 and 2000 to re-allocate its resources to transport logistic projects. It is a joint venture between the Research Institute of Highway under the Ministry of Communications for the development of a freight exchange information system, in which the Company has 70% effective interest.

TransOnline hinges on "Freight Exchange Information System", "Integrated Logistics Solution", and "Value Added Services". The progress in the development of TransOnline has been severely delayed by SARS in 2003, as a result, there has been little revenue generated. The status of development of TransOnline is set out as follow:

"*Freight Exchange Information System*"

This is the result of a five-year research project across the globe undertaken by the Research Institute of Highway under the Ministry of Communications. It is a highly specialised and dedicated network based land transport logistic infrastructure covering the PRC which taken us over three years to build. Even with the impact of SARS, we are able to maintain 85 alliance members and 67 special support units over 150 medium to large cities covering all provinces except for Hainan. We still have over 270 service centers catering for our members' basic needs such as cargo matching, personal authentication, vehicle maintenance, insurance and lodging.

"*Integrated Logistics Solution*"

In connection with the setup of a logistic hub, due to the impact of SARS we are still unable to find a suitable site to build a test operational logistic hub using our "Warehouse Management System" (W.M.S) together with our "Transport Management System" (T.M.S.).

With SARS behind us, we resumed in the last quarter of 2003 on our marketing and promotion of the logistic system "貨運小靈通" for the freight brokering industries.

"*Value Added Services*"

With the spread of SARS, the Possible Acquisition announced on 20th December 2003 and the estimated substantial investment involved to build a nationwide "Location Base Services" for our members, we have to put back our negotiation with the leading wireless operator until we know the outcome of the Possible Acquisition.

DICO

DICO is principally engaged in providing broadband and cable TV related platform and equipment for cable TV and telecommunication service operators, it was acquired by the Company in 2001 in anticipation of its ability to participate in perceived growth potential of the Digital Video Broadcasting – Cable ("DVB-C") solutions market in the People's Republic of China (the "PRC"), arising from the conversion of analog systems commonly used in cable broadcasting to digital system. Unfortunately, the relevant PRC authorities have yet to set the relevant standards for the DVB-C industry in the last two years and now it appears that the relevant authorities are unlikely to ease the restrictions on the broadcasting of foreign media content in the PRC in the near future. In order to cope with the change of the market environment, DICO has been working on vertical product.

In 2003 DICO recorded a turnover of HK$2,359,000, as a result of the spread of SARS in the PRC and the stagnant market environment in the DVB-C industry, the development of DICO's operation was affected. Due to the unclear environment in the future, the management has considered to be prudent and have made a further provision amounting to approximately HK$56 million for the year ended 31st December 2003 on DICO's goodwill.

OUTLOOK

The Possible Acquisition

On 10th December 2003, the Company entered into a conditional acquisition agreement with China Electronics Corporation, a state-owned enterprise established in the People's Republic of China with the approval of the PRC State Council, and Winsan International Holdings Limited. Under the Acquisition Agreement, the Company is conditionally agreed to acquire a 65% equity interest in Shenzhen Sang Fei Consumer Communications Company Limited, a sino-foreign joint venture company incorporated in the PRC principally engaged in the manufacturing and sale of mobile phones, which is currently held by CEC Group.

The completion of the Acquisition is subject to the fulfillment of a number of condition precedents including the obtaining of the PRC regulatory approvals required to give effect to the transaction under the Acquisition Agreement; the approval by the Listing Committee of the Stock Exchange of Hong Kong Limited of the new listing application being made by the Group as a result of the Acquisition and the approval by the shareholders of the Company in a special general meeting.

Pending completion, the principal asset and business of the Company will be that of Sang Fei, and CEC will become the controlling shareholder and appoint new management ("New Management") for the Company. The Company will become the CEC Group's principal Main Board listed group operating in the communication, consumer electronics and related industries.

In view of the fact that the New Management is not interested in continuing the business of the DICO and the TransOnline, the Company will dispose DICO and TransOnline's operations ("Disposals") to independent third parties. If in the unlikely event that the Disposals could not be effected, the New Management intends to discontinue the current businesses of DICO and TransOnline.

OUTLOOK (cont'd)

However, in the unlikely event that the new listing application is not approved by the Listing Committee or the Acquisition is not approved in the SGM, the Group would carry on the existing businesses as well as looking for other business opportunities in order to bolster the Company's value.

It is believed that the global as well as the PRC economy will continue to recover in 2004. The Group will consolidate its resources and strengthen its competitiveness with the aim of increasing return for our shareholders.

FINANCIAL REVIEW

During the year ended 31st December 2003 (the "Year"), the Group recorded a turnover of approximately HK$3,369,000 (2002: HK$708,000). Out of the total turnover, HK$2,359,000 (2002: HK$466,000) was generated from DICO and HK$1,010,000 (2002: HK$242,000) was generated from TransOnline. The loss attributable to shareholders for 2003 was HK$85,756,000 (2002: HK$47,177,000), including the provision for the impairment loss on goodwill amounting to approximately HK$55,977,000 (2002: nil).

As a result of the spread of SARS and unclear development of DVB-C industry in the PRC, the turnover and the operating results of the TransOnline and DICO's businesses were seriously affected. The circumstances surrounding the operations of TransOnline and DICO are set out in the section headed "OPERATIONAL REVIEW".

The spread of SARS also severely impacted our liquidity during the year. The operations of the Group during the year was mainly financed by the loans granted by the ultimate holding company. The net current liabilities increased from HK$47,213,000 as at 31st December 2002 to HK$70,155,000 as at 31st December 2003. In addition, the shareholders' equity has been eroded from HK$18,533,000 as at 31st December 2002 to a capital deficiency of HK$67,223,000 as at 31st December 2003. This was mainly caused by the additional provision on the impairment loss on goodwill amounting to approximately HK$56 million.

OTHER EVENTS

Capital adequacy and liquidity

As at 31st December 2003, the Group had a deficit on net tangible assets of HK$67,223,000 (2002: HK$40,583,000) and a net current liability of HK$70,155,000 (2002: HK$47,213,000) (inclusive of the amounts due to related companies).

The unsatisfactory results and the funding of the operations by the major shareholder contributed to the increment of the total liabilities to the total assets ratio from 75% as at 31st December 2002 to 992% as at 31st December 2003.

The Directors recognise that in view of the uncertainty in the market in the immediate future, the continuation of the Group's business will depend on the financial support of its directors and major shareholders. In this connection, Mr. Chan Chak Shing has confirmed that he will provide the necessary funding to the Group as and when necessary up to the completion of the Acquisition. In the event that the Acquisition could not be completed, Mr. Chan will continue to provide the financial support to the Group as and when necessary for a period of twelve months from the date of this report.

OTHER EVENTS (cont'd)

Bank loans

As at 31st December 2003, the balance of bank and other loans was HK$7,710,000 (2002: HK$20,755,000) while the balance of bank overdraft was HK$464,000 (2002: HK$4,891,000). Out of the bank and other loans as well as the bank overdrafts, HK$4,591,000 (2002: HK$13,577,000) was denominated in Hong Kong dollars and the remaining balance was denominated in Renminbi. Except for a fixed rate government loan of approximately HK$755,000 at 2.5% per annum and an interest free government loan of approximately HK$2,828,000, the remaining bank loans as well as the bank overdraft are floating rate facilities.

Since the interest rate for both Hong Kong dollar and Renminbi is relatively stable in the previous years, no financial derivatives was arranged to mitigate the fluctuation of the interest rate risk during the year.

As our principal activities are mainly carried out in the Mainland China, the fluctuation of the exchange rate between Hong Kong dollar and Renminbi is critical to our business. Since the value of Renminbi is relatively stable in the previous years, no hedging instrument had been arranged for the mitigation of the exchange rate risk.

Contingent liabilities

As at 31st December 2003, DICO, a subsidiary of the Company provided a corporate guarantee in respect of banking facilities granted by a bank (the "Lender") to a third party (the "Borrower") to the extent of HK$6,675,000 (2002: HK$6,675,000).

Arbitration proceedings have been commenced in April 2003 by the Lender against the Borrower and DICO. It was held on 26th September 2003 by the Shenzhen Arbitration Tribunal that the Borrower is liable to repay the outstanding amount to the Lender and that DICO is also liable for the remaining payment of such amount. DICO has not received further notice from the Lender on this matter. In the opinion of the directors of the Company, it is not possible to quantify the remaining amount of payment for which DICO is liable and therefore no provision has been made in the accounts.

Capital commitment

As at 31st December 2003, the Group did not have outstanding capital commitment.

OTHER EVENTS (cont'd)

Employee

During the Year, we continued to streamline our management and working teams in logistic services and DVB-C market to overcome the current difficult operating environment.

As at 31st December 2003, the Group had 32 (31st December 2002: 62) employees, majority of which were based in the PRC.

The Directors believe that the quality of our employees is the most important factor in sustaining the Group's growth and improving its cost effectiveness. Employees are remunerated according to their performance and work experience. In addition to basic salaries and retirement scheme, staff benefits include medical scheme, share options and performance bonus.

The subsidiaries of the Group in the PRC participate in the defined contribution pension schemes operated by the relevant local government authorities in the PRC while the Group's directors and employees in Hong Kong have joined the Mandatory Provident Fund Scheme since December 2000. The total amount contributed to the relevant pension schemes for the Year was HK$306,000 (2002: HK$373,000).