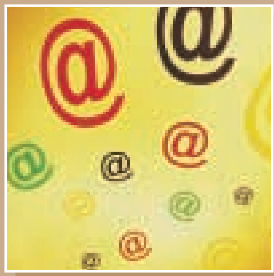
Business Review & Outlook



BUSINESS REVIEW AND OUTLOOK

FINANCIAL REVIEW

The Group's consolidated turnover in 2003 amounted to approximately HK$44.2 million, representing a decrease of approximately HK$22.5 million (33.8%) from approximately HK$66.7 million in 2002. Loss attributable to shareholders in 2003 was increased from approximately HK$4.0 million to approximately HK$46.7 million. During the year 2003, the Group disposed of the Fire Protection and Suppression Business in Hong Kong which resulted in a loss of approximately HK$14.3 million while the Group recorded a gain on disposal of the Building Services Contracting Business of approximately HK$29.4 million in 2002.

The Group's total assets as at 31 December 2003 amounted to approximately HK$262.2 million which are financed by liabilities and minority interests totalling approximately HK$133.2 million and shareholders' funds of approximately HK$129.0 million.

As at 31st December 2003, the Group did not have material capital commitments.

BUSINESS REVIEW

Telecommunication Division

The Group established this Division in March 2003. On 10th April 2003, the Telecommunication Division obtained the Public Non-exclusive Telecommunication Service ("PNETS") Licence and started to provide corporate IDD retail service and voice wholesales service to customers in May 2003. During the year 2003, the Telecommunication Division has also developed and installed a billing system to provide billing services to our customers. In December 2003, this Division started to sell prepaid IDD calling card services to the Hong Kong market and has been exploring various potential services such as Internet Content Services in 2004 to enlarge the customer bases and to develop future revenue streams for the Group. This Division plans to launch the first Internet-based gaming service in the third quarter of 2004 and targets for the Japan market initially.

This Division is in investment stage and the segment results of this Division was loss of approximately HK$2.7 million for the year ended 31st December 2003. We had signed various contracts with some major carriers in Hong Kong, PRC and Japan for the provision of telecommunication-related services and wholesale service to various local and international carriers and services providers.

The Group acquired a new telecommunication subsidiary in Hawaii in January 2004. This new subsidiary is in the telecommunication industry and which has an IP network in Hawaii which is interconnected with a Japan customer's network in Japan via a fiber optic network to support its customers' IP voice and data requirements. The management team has extensive experience in both voice and data networking, programming, and sales and marketing and who had previously developed various types of voice over data network. This subsidiary's international IP network comprises of direct connections to various international telecommunication carriers in North America, Asia, Europe, and Latin America rather than reselling any of the long distance services from other carriers in Hawaii. It is able to provide equivalent or advance voice quality than any of its competitors at the lowest domestic and international long distance rates. In addition, it can form strategic alliances with various resellers and service providers in Hawaii and Asia Pacific to deliver IP-based products and services to their enterprise customers.

Media and Content Division

The Media and Content Division was established through the acquisition of Keen Billion Agents Limited ("KB") on 20th December 2003. KB was subsequently renamed as Sun Innovation Media Group Limited in February 2004. This Division conducts Telecommunications Value Added Services ("VAS") through its subsidiaries, Cellcast (Asia) Limited ("CAL") in Hong Kong and Macau and New Power Limited ("NPL") in PRC. The products and services include download of ring tone, wallpaper, mobile JAVA games and community services. CAL has been trading under the Brand name "Yeahmobile" since year 2000. The business model of this Division is based upon the relationship with mobile operators, content owners and media owners. This Division aggregates content, promotes the content through print or electronic media, bills and delivers content via mobile operators.

CAL has been engaged in telecommunications VAS services since 2000 and is the first as well as, the leading VAS provider to introduce mobile VAS in HK and Macau. CAL has got billing arrangement and connectivity with 6 mobile operators in Hong Kong and 3 mobile operators in Macau. CAL is also the provider of VAS infrastructure for TVB and RTHK on interactive TV and radio applications.

NPL has been providing VAS in the Guangdong province since 2001. It was ranked as the no. 5 Service Provider by the Guangdong Mobile Communications Corporation in the second half of year 2002. It has been one of the major market players in Guangdong Province, PRC. NPL has got billing arrangement and connectivity with both China Mobile Communications Corporations ("China Mobile") and China United Telecommunications Corporation ("China Unicom"). NPL has secured code "5388" from China Mobile and code "9388" from China Unicom. Both numbers have national-wide access capability. NPL is also the VAS infrastructure provider for Pearl Channel of Guangdong TV station on interactive TV applications. NPL has started an operation in Shanghai in the fourth quarter of 2002 in a bid to capture the business in the Eastern part of PRC.

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Investment Properties Division

This Division has several investment properties in Hong Kong and Guangzhou, PRC and all of them are leased to independent third parties, which generated stable revenue to the Group. For the year ended 31st December 2003, segment results of this Division amounted to loss of approximately HK$4.8 million which was mainly due to the impairment loss made on furniture and fixtures of approximately HK$5.7 million.

Discontinued Hong Kong and PRC Fire Protection and Suppression Business

In order to efficiently deploy internal resources to maximize return to the Group, the Group disposed of the Fire Protection and Suppression Business in Hong Kong to an independent third party in September 2003 at a consideration of HK$5 million. Loss on disposal thereon was HK$14.3 million.

In March 2004, the Group announced to dispose of a wholly-owned subsidiary, which held 51% equity interests in the Sino-foreign equity joint venture in Shanghai, Shanghai Mansion Wananda Fire System Company Limited (the "Shanghai JV Wananda"), to Mr. Fang Gui Fang, the ultimate beneficial owner of the minority shareholders of the Shanghai JV Wananda at a consideration of RMB5 million (equivalent to HK$4,673,200). The completion date of this transaction will be on or before 30th March 2005.

Subsequent Events

In January 2004, the Company has acquired a telecommunication subsidiary in Hawaii. Details are disclosed in "Telecommunication Division" section above.

In January 2004, the Company has also granted 180 million options to Station Investments Limited ("SIL"). Details are disclosed in the "Pledge of Shares by Substantial Shareholder and by the Company" section.

In February 2004, the Company entered into an agreement with Circle Asia Inc. ("CAI"), a creditor of a subsidiary of the Company newly acquired in 2004, for the issuance of 475,000,000 ordinary shares at HK$0.024 each to CAI to settle a debt owing by the Group to CAI. Details of which are disclosed in the announcement dated 27th February 2004.

In middle of March 2004, the Company has granted 92,350,000 options to the employees of the Group at the exercise price of HK$0.022 each over a period of two years.

In March 2004, the Group has signed an agreement to dispose of its leasehold land and buildings situated in Hong Kong with a net book value of HK$3.5 million as at 31st December 2003 at a consideration of HK$3.52 million to an independent third party.

In March 2004, the Company entered into an agreement with Mr. Fang Gui Fang to dispose of an indirectly wholly-owned subsidiary, which held 51% equity interests in the Shanghai JV Wananda. Details are disclosed in the abovementioned "Discontinued Hong Kong and PRC Fire Protection and Suppression Business" section.

In April 2004, the Company entered into an agreement with the SIL in relation to the subscription by SIL of the convertible preference shares at a total subscription price of HK$69 million which will be satisfied by SIL releasing the Company from its obligations to repay part of the loan for a sum of HK$69 million upon completion. As at the date of the agreement, SIL and its beneficial owner held 191,240,000 shares and 180 million options of the Company. Assuming that there is no change in the issued share capital of the Company during the period from the date of the agreement to the date of the exercise of the conversion rights attaching to the convertible preference shares and the exercise of the Option, immediately upon full exercise of the conversion rights under the convertible preference shares, SIL's shareholding in the Company will increase from about 3.92% of the existing issued share capital of the Company to about 42.30% of the enlarged issued share capital of the Company. In such event, under the Takeovers Code, SIL and parties acting in concert with it would be obliged to make a mandatory general offer to acquire all the shares other than those already owned by SIL and parties acting in concert with it, unless the Whitewash Waiver is obtained. An application will be made by SIL to the Securities and Futures Commission ("SFC") for the Whitewash Waiver subject to the approval of the independent shareholders of the Company on a vote by way of poll. SFC may or may not grant the Whitewash Waiver. Completion is conditional upon, among other things, the granting of the Whitewash Waiver by SFC. Otherwise, the agreement will lapse. Details of this transaction are disclosed in the announcement dated 16th April, 2004.

Liquidity, Financial Resources, Charges on Group Assets and Gearing Ratio

The Group continues to adopt conservative funding and treasury policies. As at 31st December 2003, the Group has cash and bank balances of approximately HK$16.4 million, bank overdraft and short-term loans of approximately HK$10.9 million and long-term loans of approximately HK$57 million. The Group's current assets as at 31st December 2003 are at approximately HK$51.8 million while the current liabilities including final installment of the consideration for the acquisition of KB at HK$33.5 million are approximately HK$69 million. The payment of this HK$33.5 million was financed by a HK$35 million long-term loan obtained in January 2004. The Group's current ratio as at 31st December 2003 is 0.75 (2002: 1.00). With the adjustment by excluding the consideration payable, the current ratio as at 31st December 2003 is 1.46.

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During the year 2003, the Group had been improving the financial resources by obtaining more banking facilities and long-term loan. The Group had changed its principal banker in June 2003 and obtained banking facilities of HK$25 million, comprising a HK$10 million 10-year mortgage loan and HK$15 million short-term facilities with pledge of an investment property of the Group in Hong Kong. The Group also obtained a long-term loan of approximately HK$12.4 million from a financial institution in 2003 with a pledge of an investment property of the Group in Hong Kong.

In December 2003, the Group acquired a group of companies which are principally engaged in conducting content aggregation and telecommunication value-added services in Hong Kong and PRC at the consideration of HK$67 million. The acquisition was wholly financed by a 6-year loan with the interest rate of 3% in the first year and of 6% in the remaining years. As security of the repayment of the 6-year loan by the Group, e-Compact Limited, the substantial shareholder of the Company, has agreed to pledge 805,570,000 shares of the Company to the 6-year loan lender and the Group has also agreed to pledge the entire issued share of a wholly owned subsidiary to the 6-year loan lender. The wholly owned subsidiary indirectly holds an investment property in Hong Kong.

The Group's gearing ratio, representing the Group's total liabilities divided by the shareholders' funds of the Group, as at 31st December 2003 is 0.97 (2002: 0.26).

Exposure to fluctuations in exchange rates and related hedges

The Group's turnover, expenses, assets and liabilities are denominated in Hong Kong dollars, Renminbi and United States dollars. As the exchange rates of United States dollars and Renminbi against Hong Kong dollars were relatively stable during the year under review, the Group's exposure to fluctuations in exchange rates is considered minimal and no financial instruments have been used for hedging purposes.

Contingent liabilities

As at 31st December 2003, there was a material outstanding litigation which was commenced by a third party contractor in April 2002, claiming against a bank which had served a third party notice to the Company, for a performance bond amounting to HK$8.6 million given by the Company to a former subsidiary in order for it to undertake an installation project with the third party contractor. As at 31st December 2003, the Group's bank deposits of HK$8.6 million were pledged for the purpose of this performance bond. The Company issued a fourth party notice to seek recourse from the former subsidiary. The directors, having sought independent legal advice, are of the opinion that the case is unclear at this stage as the amount of liability could not be measured with sufficient reliability. Accordingly, no provision has been made in the accounts in respect of the claim.

Except for the above outstanding litigation, the Group did not have any material contingent liabilities.

Pledge of Shares by Substantial Shareholder and by the Company

As mentioned in the third paragraph of the abovementioned "Subsequent Events" section and the announcement dated on 16th December 2003, e-Compact Limited, the substantial shareholder of the Company, had pledged 805,570,000 Shares of the Company to SIL as security for the repayment of the loan of HK$70 million (the "Loan") to the Company and the Company had also pledged its entire issued shares of Wide Profit Enterprises Limited, which indirectly holds an investment property in Hong Kong, to SIL. Majority of the Loan was used in the acquisition of KB. In consideration of the granting of the Loan by SIL, the Company had granted 180 million options to SIL. Details of the Loan and the pledge of shares are disclosed in the announcement dated 16th December 2003.

Employees of the Group

The Group has adopted competitive remuneration package for its employees according to their performance. There are also contributions to provident fund schemes, medical subsidies, study and examination leaves offered to all full-time staff.

As at 31st December 2003, the total headcount of the Group was 180.

Outlook

The telecommunication VAS market in PRC and South East Asia is relatively immature compared with that of Japan and Korea. Network operators in Asia, other than Japan and Korea, only started opening up their platform in late 2000 and independent Services Providers ("SP") started providing services back then.

In HK, the number of mobile subscribers was 7.2 million in December 2003 and with a population of just 6.8 million, the mobile phone penetration rate is around 106%, which is one of the highest in the world. However, the number of data services subscribers (General Packet Radio Services, "GPRS", subscribers) was only 0.73 million as at December 2003. There are 6 network operators in the mobile communications market and the total revenue generated by the mobile operators is estimated to be over HK$15 billion for 2003. However, VAS income was estimated to account for 5 % to 10% of the total revenue.

In PRC, the number of mobile subscribers was 269 million in December 2003 and with a population of just 1.3 billion, the mobile phone penetration rate was around 20.3%, which was low compared with that of developed counties in the world. There are 2 national network operators in the mobile communications market and the total revenue generated by the mobile operators was over RMB 226 billion for 2003. However, VAS income is estimated to account for around 5% of the total revenue (according to the statistics released by China Unicom Limited).

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The Company considers telecommunications VAS market in Asia to be a high growth market. Despite the saturation in the subscriber-ship in the mobile market in HK, the company believes there is plenty of room for VAS services to prosper given the existing low percentage of revenue it is contributing to the network operators and the low percentage of data services users. The Company considers the PRC market a high growth market for mobile telecommunications in general given the existing low penetration rate. However, the Company will focus on VAS services in PRC over which the Company believes it has the know-how and experience.

The Company intends to develop, rather than aggregate, content in future in order to strengthen our positions in the market. Since there is a general tendency to switch from voice communications to data communications in the mobile telecommunications market, the Company may consider to develop more content based upon data application like mobile games. The Company believes in positioning itself in such a way, it will benefit from the proliferation of data traffic.