Management Discussion and Analysis

ENCOURAGING OPERATING RESULTS

In 2003, despite operating and business environment dragged by the successive occurrence of unforseeable crises, the Group has still achieved encouraging results as a result of the dedications of our staff at all levels. The overall turnover for the year increased to HK$1,015.3 million from HK$996.0 million in 2002. Benefited from the substantial decrease in operating losses and significant increase in realised and unrealised gain from investments, profit attributable to shareholders of HK$801.2 million was recorded.

DIVIDEND

In view of the outstanding performance of investments in 2003, and in consideration of the ongoing restructuring of the Company's business, the Board has recommended the payment of a special dividend of HK 3 cents per share after the balance sheet date. The payment of this proposed dividend is subject to the shareholders' approval in the forthcoming annual general meeting.

BUSINESS REVIEW

The breakdown of turnover by operations in 2003 is as follows:

	2003 ***HK$ million***	2002 *HK$ million*	% *+/(-)*
Manufacture and Distribution Business (by major products)			
Industrial controllers	**510.8**	403.5	26.59
Stone printers	**163.5**	163.2	0.18
Gold Tax products	**34.2**	27.5	24.36
UPS equipment	**72.5**	91.7	(20.94)
Digital graphic products	**73.1**	44.1	65.76
Computers	**26.4**	152.9	(82.73)
Others	**87.5**	69.5	25.90
	968.0	952.4	1.64
Fee from Value-Added Technical Services	**47.3**	42.3	11.82
Media-Related Business	**0**	1.3	(100.00)
	1,015.3	996.0	1.94

Other than the growth of the Group's turnover, overall gross profit margin for the year improved from 11.68% in 2002 to 12.71% in 2003.

MANUFACTURE AND DISTRIBUTION OF ELECTRONIC PRODUCTS

Industrial Controllers

The turnover of industrial controllers increased by 26.59% from approximately HK$403.5 million in 2002 to approximately HK$510.8 million in 2003. Gross profit margin also increased from 7.60% to 8.36% when compared with the previous year. The growth in sales attributed mainly to the strong demand derived from the overall growth of the PRC economy and the sales driving price reduction policy adopted by our industrial controllers venture in 2003. In mid-2003, the venture employed a new ERP management system, allowing the venture to make response to its customers in much shorter time with substantially higher accuracy, thus significantly enhanced its management and service standards. As a result of the greatly improved customer satisfaction, more and more customers are willing to order products from our industrial controllers venture.

The growth of sales mainly derived from the sales of Fuji-branded transducers and products from companies like Allen Bradley PLC, Siemen PLC, Omron and RKC, among which the sales of Allen Bradley products recorded the largest growth of approximately 37%. The industrial controllers venture previously ranked second in the distribution chart of Allen Bradley, and it has captured the first place in 2003, accounting for 10% of the sales of Allen Bradley's products in the PRC. Meanwhile, RKC's temperature controllers and Fuji's transducers have also captured 50% or more market shares. As usual, the sales in some of the products, such as products from Mitsubishi, showed signs of decline as a result of the disorderly market with the flood of parallel products, making sales difficult for the industrial controllers venture at relatively high operating costs.

Invoice Printers

In 2003, the turnover of Stone Printers only increased by 0.18% to approximately HK$163.5 million as compared to approximately HK$163.2 million in 2002. Gross profit margin decreased from 20.68% to 17.68% when compared with the previous year. The decrease in gross profit margin was mainly due to the unfavourable operating conditions in 2003. The clients of Stone Printers in financial, public security, commercial and industrial, transportation, power, petroleum, postal and communications, railways, taxation and insurance sectors were also affected, and therefore reduced their expenses. As a result, the selling prices of Stone Printers were lowered to promote sales and the gross profit decreased.

Gold Tax Products

In 2003, the turnover of the Gold Tax products increased by 24.36% as compared to 2002, from approximately HK$27.5 million to approximately HK$34.2 million. Compared with the previous year, gross profit margin decreased from 10.44% to 9.00%. The increase in sales is mainly attributable to the non-acceptance of hand-written invoices and the requisite machine-printed invoices for tax return purposes by the State Tax Bureau of China ("STB") since 1 July 2003, a driving force for the growth of our anti-counterfeiting tax control machines. Decrease in gross profit was mainly due to the increase in direct expenses.

Stone's anti-counterfeiting tax control machine is specially designed to counteract fake value-added tax invoices. The machine has flexible billing, statistics and invoice management functions which simplify the billing processes. The more accurate, speedy and user-friendly operations also enable the modernisation and digitalisation of accounting and tax collection.

MANUFACTURE AND DISTRIBUTION OF ELECTRONIC PRODUCTS *(Continued)*

Uninterrupted Power System Equipment

The turnover from uninterrupted power equipment declined from approximately HK$91.7 million in 2002 to approximately HK$72.5 million this year, representing a decrease of 20.94%. Gross profit margin increased from 3.06% to 5.47% when compared with the previous year. Decrease in sales was a result of the close-down of one of our key customers.

Our Integrated Electronic Business Unit has been in close cooperation with a number of overseas prestigious vendors in power generation related appliances. The Group is currently the sole agent in China for three globally renowned Uninterrupted Power System (UPS) companies, namely Powerware in U.S., Sendon in Canada and GS Battery Co., Ltd. in Japan.

Digital Graphic Products

The turnover from Digital Graphic products increased from approximately HK$44.1 million in 2002 to approximately HK$73.1 million this year, representing an increase of 65.76%. Gross profit margin decreased from 13.58% to 10.70% when compared with the previous year. The surge was mainly attributed to the fierce competition and price reduction strategy taken by Computer Aided Design division in 2003, which in turn significantly boosted our turnover effectively, meanwhile, gross profit margin lowered.

Computer Aided Design division introduced the state-of-the-art 3D CAD equipment and technology to the Mainland China, including 3D modules, 3D measurement equipments, craving equipments and related solutions. Equipments with this technology under the brand of Roland include 3D modeling modules, metal carving machines from the MDX series, 3D contact-type scanners from the PICZA series, 3D non-contact-type laser scanners, letter carving machines and high-precision broadband graphic drawing machines from the LPX series.

Computer Products

The turnover from computer products greatly declined from approximately HK$152.9 million in 2002 to approximately HK$26.4 million this year, representing a decrease of 82.73%. The decrease in sales was a result of the sales of the extremely low profit margins of non-branded computer products were ceased by the Group in 2003. In return, gross profit margin increased from 0.53% to 10.59% when compared with the previous year.

Other Products

The turnover from other products in 2003 was HK$87.5 million, an increase of 25.90% over the HK$69.5 million in 2002. Other products include semiconductors, electrical lighting equipments, electrical peripheral, control systems for automated doors and other electrical products.

VALUE-ADDED TECHNICAL SERVICES

The revenue from Value-Added Technical Services surged from HK$42.3 million in 2002 to HK$47.3 million in 2003, representing an increase of 11.82% over the previous year.

The Value-Added Technical Services is incidental to our hardware sales business, allowing our products to better fulfil the requirements of our customers. With the strength of value-added products, the Group is positioned to deliver differentiated offerings to enhance our product competitiveness.

MEDIA-RELATED BUSINESS

At the end of the year, the investment in Media-Related Business held by the Group mainly included its shareholdings in SINA Corporation and China Cable Information Network Co., Ltd. (hereinafter "China Cable"). The Group's shareholding in SINA Corporation decreased from 20.60% at the beginning of 2003 to approximately 13.30% at the end of 2003. The gain on the disposal of SINA shares amounted to approximately HK$495.0 million, and the unrealised gain from revaluation of the investment at the year end was approximately HK$1,354.0 million. The shareholding in China Cable has been diluted from 9.51% to approximately 5.54% due to the addition of new shareholders. The dilution did not lower the Group's investment value in China Cable.

FINANCIAL REVIEW

Liquidity and Financial Resources

The Group's current ratio and liquid ratio were 8.86 and 8.36 respectively as at 31 December 2003. At the end of year 2003, cash and cash equivalents held was HK$523.5 million with net assets of HK$1,774.6 million, a proof of the sufficiency of current capital of the Group.

As at 31 December 2003, the Group's total interest bearing bank loans and other loans stood at HK$361.6 million, an increase of 674.7% as compared to 2002, however, the Group had HK$523.5 million cash and cash equivalents which far exceeded the total borrowings. The substantial increase in borrowings was principally the result of convertible notes of HK$220.0 million in aggregate issued by the Group during the year. On 6 June 2003, the Company entered into a placing agreement with First Shanghai Securities Limited ("First Shanghai") for procuring the subscription of convertible notes for the principal amount of HK$50.0 million on a fully underwritten basis. The said convertible notes were issued on 14 July 2003. Under the placing agreement, the Group also granted to First Shanghai the option to require the Group to issue additional convertible notes up to an additional principal amount of HK$350.0 million. Accordingly, HK$170.0 million convertible notes were issued on 20 October 2003. The conversion price of the convertible notes is HK$0.52 per share. Interest rate is 3% per annum and the convertible notes will mature in 5 years after the date of issue. The Group intends to use the proceeds to acquire or invest in complementary businesses or to establish joint ventures which will complement its businesses. On 30 October 2003, HK$10.0 million convertible notes were converted into 19,230,769 ordinary shares of the Company.

As at 31 December 2003, the Group had banking facilities of a total of HK$97.1 million available, consisting of HK$77.1 million of letter of credit facilities, overdraft and other general facilities for manufacturing and distribution companies, and HK$20.0 million of term loan. The Group had banking facilities of HK$80.6 million remained unutilised as at 31 December 2003.

Use of Proceeds

The Group raised HK$234.0 million, net of related expenses, from the issue of 115,000,000 new shares under a private placing in 1999. As disclosed in our 2000 annual report, HK$84.0 million was applied to the implementation of various acquisitions and HK$20.0 million was used as general working capital in 2001. In 2002, an amount of approximately HK$28.3 million was invested in Censoft Company Limited for its 30% equity interest, and the use of the remaining fund of approximately HK$102.0 million has been changed as disclosed in the announcement dated 6 May 2003, from acquisitions, e-commerce joint venture and internet related business development to working capital and technology related business development, including but not limited to e-commerce, internet related business, manufacturing and service, and value-added business in the information technology industry. The remaining fund was fully used as working capital and applied in the acquisition of a healthcare products business during the year.

FINANCIAL REVIEW *(Continued)*

Details of Charges on Group Assets

As at 31 December 2003, a fixed deposit of HK$15.5 million (2002: HK$Nil) and properties with carrying value of HK$13.8 million (2002: HK$14.2 million) were pledged with banks as collateral against banking facilities and a term loan granted to subsidiaries of the Group. In addition, some of the shares of SINA Corporation held by the Group were pledged against a margin loan of US$15.0 million granted to the Group by a securities company.

Contingent Liabilities

As at 31 December 2003, the Group had provided a counter guarantee of approximately HK$36.4 million (2002: HK$52.9 million) for bank loans granted to an associate.

Hedging

As the Group makes its purchase substantially from overseas, it is the Group's policy to enter into foreign exchange forward contracts to hedge against foreign exchange fluctuation whenever necessary.

HUMAN RESOURCES

As at 31 December 2003, the Group employed a total of 845 (2002: 913) employees, of which 816 (2002: 884) were employed in the PRC and 29 (2002: 29) in Hong Kong. Out of the 816 employed in the PRC, 9 were temporary staff.

In addition to basic salaries and bonuses, employees are also entitled to other benefits, including medical subsidies and the benefit under the mandatory provident fund, and Central Pension Scheme and supplementary defined contribution retirement plans managed by independent insurance companies respectively for Hong Kong and PRC staff. Certain employees are also given share options as incentives.

OUTLOOK

It is always the operating mission and commitment of the Group to create value for the shareholders. Despite the outstanding results of the Group in 2003, the performances of the Group's core businesses was still under expectation. Moreover, following the China's accession into the World Trade Organisation, the market will gradually open up, and the operations of manufacture and distribution of electronic products will be more difficult. Therefore, the Group and Mr. Shi Yuzhu entered into a sale and purchase agreement at the end of 2003, for the acquisition of the healthcare products business at a consideration of HK$1,172.0 million. The management believed that the sale of healthcare products will contribute steady income and cash flow to the Group. Besides manufacture and distribution of electronic products and media-related business, healthcare products business will become another core business of the Group. The management are going to focus on the development of healthcare products business in the coming years. With the acquired product distribution network and personnel in healthcare products business, the Group will actively explore new products and markets. The operation of the original manufacture and distribution business will keep going in a steady manner with cost control measures to achieve profitability. In addition, the Group will closely monitor its previous investment in media-related business in order to improve its overall operating profits and enhance its investment value and return for shareholders.