

Chairman's Statement

On behalf of the Board of Directors, I have pleasure in presenting the annual report of the Company and its subsidiaries (the "Group") for the year ended 31 March 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the year ended 31 March 2004, the Group has resumed to profitability with a profit of approximately HK\$103,000 and earnings per share of HK0.02 cents. The improved operating result was mainly attributable to the Group's continuous effort in controlling its operating cost and the disposal of certain non-profit making subsidiaries. The Board of Directors has resolved not to recommend a payment of dividend for the year.

The Group's turnover for the year under review totalled approximately HK\$23.1 million, representing a slight decrease of approximately 1% as compared to the corresponding period for 2003. This decrease in turnover was attributable by the disposal of Recor International Limited and its subsidiaries ("Recor Group") in January 2004. Recor Group was engaged in the sales of audio and visual products, computers and software games and subcontracting businesses. After the disposal, the Group ceased to generate income from such businesses, resulting in a decrease of turnover as compared to full year income for the year ended 31 March 2003.

Significant Investments, Acquisition and Disposal

The various business projects undertaken by the Group over the previous years have not performed up to expectations, resulting in losses and deteriorating cash flows to the Group. The Board has been critically reviewing all the existing business operations, analyzing their respective potential and prospects, rationalizing or disposing of some of these operations in order to reduce loss. In January 2004, the Group has disposed of the Recor Group in view of its continuous loss suffered. A profit on disposal amounted to approximately HK\$5.8 million was generated. The Group is still optimistic toward the future development of the electronic products, computers and software games industries. The Group has been actively and prudently seeking suitable investments with development potentials in the same industries to strengthen the Group's businesses.

In June 2003, the Group entered into a conditional agreement for the acquisition of 上海凱祥服飾有限公司 ("上海凱祥") for a consideration of HK\$20 million. 上海凱祥 is a wholly foreign owned enterprise established in the PRC engaging in manufacturing and sales of garment in the PRC. The transaction was completed in November 2003. The Board expected that the investment provides an opportunity for the Group to diversify into the garment manufacturing industry in the PRC. The global garment trading will further liberate the market potential of the domestic garment industry following its entry of World Trade Organization ("WTO") and the signing of Mainland-Hong Kong Closer Economic Partnership Arrangement ("CEPA"). The Board believes that the investment would generate a positive return and would improve the liquidity position of the Group. 上海凱祥 contributed to approximately HK\$2.3 million of turnover and approximately HK\$2.8 million of loss before tax for the year ended 31 March 2004. 上海凱祥 had a relatively low turnover contributed to the Group for the year ended 31 March 2004 because its manufacture and sales of garment business were not consolidated into the Group until December 2003. Due to a relatively short period of operation, the Board does not consider the figure for the four months operation of any significant relevance. Meanwhile, after being acquired by the Group, the management team of 上海凱祥 has undertaken active reforms in controlling operating costs and increase productivity. With the optimistic expectation from the garment industry of the market condition, the Group expected that the corresponding income from manufacturing and sales of garment will be improved in 2005. The Board will grasp the opportunities arisen from the industry consolidation and review the possibilities for acquisition of businesses related to garment industry to solidify the Group's competitiveness.

Chairman's Statement (continued)

Settlement of Litigations

On the positive side, the Group has reached settlements for most of the legal cases. Details of which are set out under the heading of "Litigation" in Note 33 to the financial statements.

Future Business and Prospects

In November, 2003, the Group entered the garment industry by acquiring 上海凱祥 in the PRC. Currently, the major customers of 上海凱祥 were local entities in Shanghai. The Group is now aiming at introducing new customers from both other cities in China and from overseas by extending the trading arm of the Group into these places. In January, 2004, the Group disposed of the Recor Group which conducted electronics and software games businesses. The reason for the disposal is to eliminate potential losses of this group of companies in future. The Group is seeking other potential investment opportunities in the same industry.

The Group will also expand into the property business. In March, 2004, the Group has entered into a conditional sales and purchase agreement to acquire a commercial property in Shanghai, which is expected to be completed by the end of 2004. This acquisition will strengthen the asset base of the Group. Despite the recent imposition of China's macro-economic control policy, the Board is in the opinion that the property market in China is promising in the long run, particularly in those major cities like Beijing and Shanghai. As such the Group will continue seeking new investments in real estate and property development project in China.

In the coming year, the Group will also actively look into new investment opportunities in other industries to broaden the Group's businesses while keeping the cost and expenditure of the Group at an optimal level.

Liquidity, Financial Resources and Capital Structure

As at 31 March 2004, shareholders' funds and net current assets of the Group amounted to approximately HK\$43,157,000 (2003: HK\$14,698,000) and HK\$23,385,000 (2003: HK\$11,754,000) respectively. As at 31 March 2004, the Group's gearing ratio, calculated on the basis of the Group's total liabilities over total shareholders' funds is 1.68 (2003: 1.35).

As at 31 March 2004, the Group had outstanding short-term bank loans of approximately HK\$47,170,000 and other loan of approximately HK\$1,980,000. The outstanding bank loans are denominated in Renminbi and the other loan is denominated in Hong Kong dollars. The short-term bank loans included an amount of RMB10,000,000 (equivalent to approximately HK\$9,434,000) which is unsecured, interest bearing at 5.83% per annum and has been fully repaid in June, 2004. The remaining balance of the short-term bank loans amounting to RMB40,000,000 (equivalent to approximately HK\$37,736,000) is unsecured, interest bearing at the prevailing market rates and repayable in August 2004. The other loan bears interest at 10% per annum and is repayable on demand.

In October 2003, the Company announced that it had entered into a placing agreement with a placing agent. Pursuant to the placing agreement, the Company agreed to place, through the placing agent on a fully underwritten basis, 880,000,000 placing shares to independent investors at a price of HK\$0.01 per placing share. The placing shares were issued under the general mandate granted to the directors of the Company by resolution of the Company's shareholders passed at the annual general meeting of the Company held on 27 August 2003. The proceeds received by the Company amounted to approximately HK\$8.8 million and were used as to (i) approximately HK\$6.4 million for the acquisition of a subsidiary, 上海凱祥; (ii) approximately HK\$1.2 million for the payment of rental expense and staff salaries; and (iii) approximately HK\$1.2 million for the miscellaneous operating expenses of the Group.



Chairman's Statement (continued)

In January 2004, the Company announced that it had entered into a placing agreement with a placing agent. Pursuant to the placing agreement, the Company agreed to place, through the placing agent on a fully underwritten basis, 2,000,000,000 placing shares to independent investors at a price of HK\$0.01 per placing share. The proceeds received by the Company amounted to approximately HK\$20 million and would be used to repay loans and liabilities of the Group, and for general working capital of the Group such as payment of staff salaries, rental expense and other operating expenses of the Group.

As at 31 March 2004, the Group had working capital of approximately HK\$23,385,000 (2003: HK\$11,754,000) and total bank balances of approximately HK\$15,157,000 (2003: HK\$2,210,000). In view of the Group's current cash balances, available banking facilities and cash revenue from business operations, it is believed that the Group has sufficient resources to meet the foreseeable working capital demands and capital expenditure.

The monetary assets and liabilities and business transaction of the Group are mainly carried and conducted in Hong Kong dollars and Renminbi. The Group maintains a prudent strategy in its foreign exchange risk management, where foreign exchange risks are minimized via balancing the monetary assets versus monetary liabilities, and foreign exchange revenue versus foreign exchange expenditures. Besides, the exchange rate between Hong Kong dollar and Renminbi also fluctuates slightly, the Group believes that its exposure to foreign exchange risk is not material.

Employees

The Group employs approximately 10 staff in Hong Kong and approximately 200 staff in the PRC. Total staff costs for the financial year under review amounted to approximately HK\$3,686,000. The Group provides its staff with various benefits including year end double pay, discretionary bonus, contributory provident fund, share options and medical insurance. Staff training is also provided as and when required.

Pledge of Assets and Contingent Liabilities

There were no charges on the Group's assets. Details of the Group's contingent liabilities as at 31 March 2004 are set out under the heading of "Litigations" in Note 33 to the financial statements.

Appreciation

I would like to take this opportunity, on behalf of the Board of Directors, to extend my sincere appreciation to all suppliers, customers, shareholders, board members as well as staff for their hard work and valuable contribution.

Kenneth Chi

Chairman

Hong Kong, 26 July 2004

