

## Management Discussion and Analysis

The Group's turnover for the year ended 31 March 2004 was HK\$0.81 million. Compared with last year, there was a decrease by an amount of HK\$4.12 million. Decrease of interest income was the main factor that caused the decrease of the turnover. The performance in investments of securities was unsatisfactory. As a result, net realized and unrealized loss together with impairment loss recognized regarding the securities investment amounted to 42.06 million as compared to 14.68 million in the preceding year. The total administrative expenses were reduced approximately 42.50% to HK\$5.26 million. The reduction of these expenses mainly attributed to the effective cost control by the management during the year. In the preceding year, the Group shared HK44.60 million loss of China Online (Bermuda) Limited (the "China Online") in the Group's consolidated income statement. Disposal of the Group's investment in China Online in 2002 (as reported in the 2003 annual report) lessened the burden of the Group in financial performance. Proceeds from the disposal was partly used to settle outstanding loans at that time and that explained why the finance cost of the Group decreased over 84% to HK\$1.67 million. The Group recorded a loss of HK\$5.83 million on disposal of subsidiaries for the year. Overall, net loss for the year ended 31 March 2004 was HK\$60.53 million as compared to a net loss of HK\$46.34 million of the preceding year. Although the market sentiment seems to be improving, the direction of the market is still blurring as there are many uncertainties such as political argument in Hong Kong and the threat of worldwide terrorism that will have influence to the market sentiment. Therefore, the Company has a conservative outlook to the recovery pace of the market in future with all those uncertain factors that will affect the direction of the market. The Group will continue to explore potential business opportunities to diversify its investment hoping to reduce the market risk that the Group will be confronting.

As at 31 March 2004, the Group had cash and bank balance of HK\$6.49 million with no bank borrowings and total investments in securities of HK\$89.87 million. In March 2004, the Company issued unsecured convertible notes in an aggregate principal amount of HK\$22 million to Winning Horse Limited (an independent third party). The convertible notes carry interest at 2% per annum and will mature on the second anniversary of the date of issue. Details of the convertible notes were disclosed in the Company's announcement dated 13 February 2004. The net proceeds of approximately HK\$21.7 million was used as to (1) approximately HK\$20 million was invested in convertible notes of another company listed on the Stock Exchange of Hong Kong Limited and (2) the remaining of approximately HK\$1.7 million was used to finance the daily operations of the Group. The gearing ratio was approximately 20.46% based on the book value of the convertible notes in the amount of HK\$22 million and the shareholders' funds of HK\$107.52 million. In April 2004, HK\$11 million of the convertible notes was converted into 500,000,000 ordinary shares of the Company at a conversion price of HK\$0.022 per share. As at 31 March 2004, the Company has pledged the shares of its two subsidiaries for a credit facility upto an amount of HK\$35 million and provided guarantee for a subsidiary to obtain a credit facility upto an amount of HK\$50 million. None of the two facilities were utilized as at 31 March 2004.

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During the year, the Company disposed two wholly owned subsidiaries named Dragon Hunter Investment Limited and Harbour Jade Limited (the "Disposed Companies") to an independent third party for an aggregate consideration of HK\$42 million. The Disposed Companies indirectly held the land development project in Jiangsu Province of the People's Republic of China through their wholly owned subsidiaries. The disposal was completed on 30 August 2003. The Group recorded a loss of HK\$5.83 million on this disposal. Details of the disposal were disclosed in the Company's announcement dated 3 September 2003.

The Group acquired certain commercial properties in Shanghai and Shenzhen for investment purpose during the year. The properties had rental contribution to the income of the Group for the year ended 31 March 2004. The Company expects the properties will have more and constant contribution to the Group's income in the coming future. As at 31 March 2004, these properties amounted to HK\$22.20 million on the balance sheet.

The Group had 3 staff as at 31 March 2004. The staff costs (excluding directors' emoluments) amounted to approximately HK\$1.14 million for the year. Staff remuneration packages are normally reviewed annually. The Group operates a Mandatory Provident Fund Scheme under the Hong Kong Mandatory Provident Fund Scheme Ordinance. In addition, the Group provides other staff benefits which include double pay, share option scheme, and medical benefits. At the beginning of the year, the number of share option granted was 13,050,000. Those share options were lapsed since 23 April 2003. No share option had been granted and exercised during the year. As at the date hereof, there is no outstanding share option.

On 30 June 2003, the Company entered into a conditional subscription agreement with Sunderland Properties Limited (an independent third party) to place, 1,150,000,000 new ordinary shares of HK\$0.01 each in the capital of the Company at HK\$0.02 subscription price per share (equal to the market closing price of HK\$0.02 per share on 30 June 2003). Details of the subscription were disclosed in the Company's announcement dated 30 June 2003. The subscription was completed on 16 July 2003. The net proceeds of approximately HK\$22 million was used as to (1) approximately HK\$11 million for the repayment of loans; (2) approximately HK\$10 million for investment in an on-line financial data service provider; and (3) the remaining to finance the daily operations of the Group.

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On 6 October 2003 the Company entered into a conditional placing agreement (the "Placing Agreement") with Chung Nam Securities Limited as placing agent ("Chung Nam") and CU Corporate Finance Limited as financial adviser ("CU") on a best effort basis to place 1,391,354,000 new ordinary shares of HK\$0.01 each in the capital of the Company at a price of HK\$0.022 per share (the "Placing") (a discount of approximately 4.35% to the market closing price of HK\$0.023 on 6 October 2003) to independent third parties. On 10 December 2003, the Company entered into a supplemental agreement (the "Supplemental Agreement") with Chung Nam and CU to adjust the placing price from HK\$0.022 per share to HK\$0.015 per share (equal to the market closing price of HK\$0.015 per share on 10 December 2003). Details of the Placing and the Supplemental Agreement were disclosed in the Company's announcement dated 6 October 2003 and 10 December 2003 respectively. The Placing was completed on 21 January 2004. The net proceeds of approximately HK\$20.5 million was used as to (1) approximately HK\$16 million for the repayment of loans; and (2) the remaining of approximately HK\$4.5 million was used to finance the daily operations of the Group.

On 30 March 2004, an agreement was entered into between Sunderland Properties Limited (the "Sunderland"), a substantial shareholder of the Company as at the balance sheet date, and Kingston Securities Limited as placing agent (the "Placing Agent") for a placement of 1,669,624,000 existing shares (the "Placing Shares") of HK\$0.01 each in the capital of the Company at a price of HK\$0.019 per share (a discount of approximately 13.64% to the market closing price of HK\$0.022 per share on 30 March 2004) to independent third parties. On the same date, Sunderland also entered into a subscription agreement with the Company to subscribe for 1,669,624,000 new ordinary shares of HK\$0.01 each in the capital of the Company at a price of HK\$0.019 per share. Details of the placement and the subscription were disclosed in the Company's announcement dated 1 April 2004. The subscription was completed on 13 April 2004. The net proceeds of approximately HK\$31 million was used for securities investment.

On 30 March 2004, the Company entered into an agreement with Placing Agent for the placement of 1,669,624,000 new ordinary shares of HK\$0.01 each in the capital of the Company at a price of HK\$0.019 per share (a discount of approximately 13.64% to the market closing price of HK\$0.022 per share on 30 March 2004). Through the Placing Agent the shares were placed to Kaison Limited (an independent third party). Details of the placement were disclosed in the Company's announcement dated 1 April 2004. The placement was completed on 7 May 2004. The net proceeds of approximately HK\$31 million will be used as to for future securities investment or other investments when opportunity is identified and as the directors of the Company think appropriate. As there is no appropriate investment opportunity is identified by the Group, the net proceeds will be retained for the general working capital. Subsequent to the completion of the placement and as the date hereof, the Company has total 12,187,372,004 issued ordinary shares.