

# Management Discussion and Analysis

For the year ended 30 April 2004, the Group recorded a turnover of HK\$43,930,000 (2003: HK\$20,796,000), representing the growth of 111% as compared to the same period last year. The increase was mainly attributable to the fact that the Group dedicated most of the efforts in the dealing of listed securities after the completion of the debt and capital restructuring occurred in previous year.

Loss attributable to shareholders was HK\$34,690,000 (2003: profit of HK\$681,118,000). This abrupt change in the results was substantially due to the exceptional gain recorded last year immediately after debt and group restructuring. During the year under review, the exceptional gain on deconsolidation and debt restructuring amounts to about HK\$4,058,000, whereas for the year ended 30 April 2003, the exceptional gain on deconsolidation and debt restructuring was recorded at about HK\$797,199,000.

Operating expenses were reduced by HK\$29,054,000, from HK\$57,387,000 in 2003 to HK\$28,333,000 in 2004. The primarily reason for the reduction is due to the lower provision requirement for the impairment loss of the Malaysia Property Investment.

Interest expenses decreased by HK\$31,099,000, or 96%, to HK\$1,306,000, mainly due to the dramatic reduction of borrowings after the completion of the debt and capital restructuring program.

## Short Term Investment in Listed Securities

During the year under review, the Group has been focusing on the trading of listed securities on the Hong Kong Stock Exchange. The upturn of the Hong Kong economy since the end of the SARS outbreak and the introduction of the Individual Visit Scheme for the mainland travelers have been nicely reflected on the equity market. The optimistic market sentiment was further promoted by the increasing number of Initial Public Offerings of large size PRC enterprises on the Hong Kong Stock Exchange. The Group carefully lifted up its short term investment in listed securities in a bid to profit from this favorable economic climate. However, the drastic increase in oil price together with the implementation of austerity measure on macroeconomic control by the PRC government since the Chinese New Year have posed negative impacts on the Hong Kong equity market. Both the general share prices and transaction volume have been moving down by certain extent. As a result, the Group has suffered a gross loss of about HK\$1.5 million and an unrealised loss of about HK\$7.6 million on the short term investment of listed securities for the year ended 30 April 2004.

## Properties Investment

The Group does not have any other property investment other than the investment project holding the commercial complex in Malaysia. During the year under review, the property management service rendered to this commercial complex was also being suspended. Consequently, the Group did not record any revenue for this sector over the past year. But the Group will continue to look into other property investment opportunity in the future.

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## Liquidity and Capital Resources

On 20 April 2004, the Company successfully issued 150 million new ordinary shares to new investors to raise HK\$105 million. As at 30 April 2004, the Group's current ratio was 4.74, based on current assets of HK\$120.6 million and current liabilities of HK\$25.4 million. The Group's gearing ratio was 0.26, based on non-current liabilities of HK\$20 million and shareholders' equity of HK\$75.4 million.

As at 30 April 2004, the Group's cash and short term investment in listed securities was about HK\$120 million whereas total liabilities including the convertible notes were about HK\$45 million. The Group was in a net cash position and has sufficient funding to pay off all the outstanding liabilities. The Group's financial situation has become much healthier and has adequate resources to invest in new business ventures.

Other than the pledge of the commercial complex in Malaysia to the bank consortium by the jointly controlled entities for obtaining the syndicated bank loan, the Group has also pledged to the financial institutions its investment in listed securities amounting to HK\$54.5 million for securities margin financing as at 30 April 2004.

## Capital Structure

During the year, there were two major transactions in the share capital structure. In September and October of 2003, 1,870,000 convertible preference shares (par value HK\$1.00 each) of the Company were converted into 233,750,000 ordinary shares (par value HK\$0.05 each) of the Company. In addition, the Company issued 150,000,000 new ordinary shares at a price of HK\$0.7 per share (par value HK\$0.05 each) to raise HK\$105 million on 20 April 2004. As at the balance sheet date, the total number of issued ordinary shares increased to 1,671,862,818 (2003 : 1,288,112,818) and the total number of outstanding convertible preference shares decreased to 79,990 (2003 : 1,949,990).

The outstanding convertible notes amounting to HK\$20 million are fully held by the controlling shareholder, Smartgood Investments Limited. The convertible notes bear annual coupon interest rate of 2% and may be converted into ordinary shares on or before 9 December 2005, being the fifth business days before the maturity date of the convertible notes. Upon full conversion of the convertible notes into ordinary shares at the conversion price of HK\$0.05 each (subject to adjustment), the Company shall further enlarge its share capital by issuing additional 400 million new ordinary shares.

## Foreign Exchange Exposure

Other than the property investment in Malaysia, the Group's cash balance and short term investments are in the currency of Hong Kong Dollars. Nonetheless, the effect of the exchange rate on the Group's cash flow is minimal and the Group had not employed any financial instruments for hedging purpose. However, proper policy will be in place when the Board considers appropriate.

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## Contingent liabilities

The Group has no contingent liabilities as at 30 April 2004.

## EMPLOYMENT, TRAINING AND REMUNERATION POLICY

As at 30 April 2004, the Group employed a total of 7 staff, up from 5 in 2003. The remuneration packages consist of basic salary, mandatory provident fund, medical insurance, and other benefits considered as appropriate. Remuneration packages are generally structured by reference to market terms, individual qualification and the performance of individual staff. They are under periodic review based on individual merit and other market factors.

## PROSPECTS

Our principal business turnover was mainly generated from the trading of listed securities. In respect of this business, it is quite vulnerable to any unfavorable economic, political or social event. After assessing our previous business strategy and results, we have decided appropriate adjustments on our strategy are necessary. Other than income generated from the dealing of listed securities and property investment, we hope to build up other new businesses to diversify our income basis which we believe will gradually stabilize the annual operating income and bring back solid long term benefits to the shareholders.

The Company has been looking at certain potential business opportunities in the PRC , carefully evaluating the risks and returns of these new investment projects and whether the Company is capable to manage the development and operation of the businesses. Shortly after the year end date, the Company successfully entered into three joint-venture agreements to invest in the following three different business projects in the PRC :

### (a) Recycling Business

On 21 May 2004, the Company has entered into a joint venture agreement with China Chengtong Holdings Company ("China Chengtong"), a state-owned enterprise incorporated under the laws of the PRC, to establish a Sino-foreign equity joint venture ("Joint Venture"). The joint venture will mainly engage in manufacturing and/or trading of recycled materials in the PRC. The recycled materials include plastic, oil sand and metallic materials. We expect that through the strategic alliance with China Chengtong, which is engaged in the business of manufacturing and selling of recycled materials, the Company will be able to engage in recycling business by utilising contribution by the parties pursuant to the joint venture agreement and leveraging on the contacts and thereby increasing the revenue of the Company.

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## (b) Instant result type online lottery business

On 8 June 2004, the Company has entered into a joint venture agreement with Gong Yi Shi Bao She, a state-owned enterprises incorporated under the laws of the PRC. The joint venture will commence the business of development of computer hardware, software and networking system and integration for instant result type online lottery in the PRC. The Directors expect that through the strategic alliance with Gong Yi Shi Bao She, who is engaged in the business of dissemination of lottery news and results, the Company will be able to engage into this new business by leveraging on the contacts of Gong Yi Shi Bao She in the PRC and contribution by the parties pursuant to the joint venture agreement both in the form of capital and management skills in the computer related business.

## (c) Coding System Project

On 23 June 2004, the Company has entered into a joint venture agreement with Free Glider Communication Co. ("JV Partner") Ltd, a company established in the PRC. The joint venture will implement the National Products and Services Coding System Project which is promulgated and enforced by the PRC government. The National Products and Services Coding System serves to develop a unified national identification-coding standard for products and services circulated in the PRC in order to create a unique standardised database containing enriched, reliable and standardised information. The information database will be maintained by the PRC government which will, in turn, facilitate to better monitor the sales of goods and services in the PRC.

The Directors believe the investment will present an opportunity for the Group to diversify its income and asset base. The JV Partner is a company established in the PRC with limited liability and is principally engaged in information technology and Internet-related businesses, including computer software design and development, provision of certain Internet information service. Given the experience of Mr. Tse On Kin, an executive Director, in the management and supervision of information technology and related business and the expertise of the JV Partner in software development, the Directors believe that the Group is well equipped to diversify its business to undertake the Coding System Project.

Based on the actual amount needs to be paid by the Group, the total amount of capital commitment for these three investment projects will be accumulated to about HK\$66 million which the Group will finance from its internal resources. The Board considers all these new investment projects are in the best interest of the Company and the shareholders as a whole. The Company will continue to seek other attractive investment opportunities to strengthen the future growth potential of the Group.