

Management Discussion and Analysis

RESULTS

The financial year ended 31 March 2002 was a very difficult year for the Group. For the year ended 31 March 2002, the Group recorded a net loss of HK\$24.4 million. Net loss attributable to shareholders is HK\$24.5 million

FINANCIAL REVIEW

Financial information

As at 31 March 2002, the Group had a net bank and cash balance of HK\$2 million (2001: HK\$0.95 million). The net current assets for the Group was HK\$83.5 million (2001: net current assets of HK\$85.3 million)

Interest Rate and Currency Exposure

As a significant portion of the Group's transactions was denominated in either Hong Kong dollars or Renminbi, the directors considered the Group had no significant exposure to foreign exchange fluctuations in view of the stability of the exchange rates of Hong Kong dollars and Renminbi. During the year under review, the Group did not use any hedging instrument.

Use of proceeds from private placements

On 20th July 2001, Active Market Investments Limited ("Active Market"), a then substantial shareholder of the Company, agreed to place 14,000,000 existing shares of the Company to seven independent investors and subscribed for 21,500,000 new shares of the Company both at a price of HK\$0.20 per shares.

On 20th August 2001, Active Market agreed to place 21,500,000 existing shares of the Company to seven independent investors and subscribed for 21,500,000 new shares of the Company both at a price of HK\$0.18 per shares.

On 5th February 2002, Kingsway SW Securities Limited agreed to place, on a best effort basis, 40,000,000 new shares of the Company to independent third parties at a price of HK\$0.10 per shares.

On 20th March 2002, Kingsway SW Securities Limited agreed to place on a best effort basis, 11,600,000 new shares of the Company to independent third parties at a price of HK\$0.12 per shares.

On 11th December 2002, the Company agreed to issue 55,000,000 new shares of the Company to Cheng Chak Wai Allen, an independent third parties, at a price of HK\$0.10 per shares.

The placements enlarged the capital base of the Company and would strengthen the financial position of the Company. The total net proceeds from the placements were approximately HK\$18.36 million and were used as general working capital of the Group.

Contingent liabilities

The Group did not have any significant contingent liabilities as at 31 March 2002.

EMPLOYEE AND REMUNERATION POLICIES

The Group regularly reviews remuneration and benefits of employees according to the relevant market practice and individual performance of the employees. In addition to basic salary, employees are entitled to other benefits such as share option scheme, of which the Board may, at its discretion, grant options to employees of

the Group. The remuneration policies of the Group's employee are subject to review regularly. Total staff costs for the year amounted to HK\$5,356,000 (2001:HK\$10,094,000)

The Group did not operate any pension or retirement schemes for its Directors or employees until implementation of MPF in December 2000. The Group has a share option scheme, which was duly approved by the shareholders on September 5, 2001, available for any fulltime employees of the Company or any of its subsidiaries, including any executive directors of the Company or of any subsidiaries. No options have been granted since the approval of the scheme.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 March 2002, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

AUDIT COMMITTEE

The Company set up an audit committee (the "Committee") on 5 June 2003 which was established in accordance with the requirements of the Code of Best Practice (the "Code"), as set out in The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), with written terms of reference, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls.

The Committee comprises two independent non-executive directors of the Company. The Group's audited financial statements as at 31 March 2003 and for the year then ended have been reviewed by the Committee, who are of the opinion that such statements comply with the applicable accounting standards and the Stock Exchange's and legal requirements, and that adequate disclosures have been made.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code as set out in Appendix 14 of the Listing Rules, throughout the accounting period covered by the annual report, except that the independent non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation and re-election at annual general meeting of the Company in accordance with the Company's Bye-laws.

DIVIDEND

The Board of Directors does not recommend any final dividend for the year ended 31 March 2003.