Management Discussion and Analysis

TURNOVER

The turnover of the Group for the year ended 30th June, 2003 was mainly attributable to the rental income from the investment properties and operations in trading and manufacturing media equipment and peripherals in the PRC.

BUSINESS REVIEW

During the year under review, the Group underwent a slump in the economic in the People's Republic of China ("the PRC") and Hong Kong after the outbreak of the Severe Acute Respiratory Syndrome ("SARS") leading to a depression of property market and extremely high unemployment rate. As a result, the Group suffered a loss of HK$6.9 million for an operation in trading and manufacturing media equipment and peripherals despite stable turnover.

In spite of adversity faced by the commercial property market, investment properties had generated stable rental incomes to the Group.

The Group had disposed of a business investment and a property investment to improve the Group's liquidity position. The Group's staffs and daily administration costs had been trim down sharply to HK$24.9 million by a decrease of 23.6% as compared to HK$32.6 million of the past year.

PROSPECT

The Mainland-Hong Kong Closer Economic Partnership Arrangement ("CEPA") took effect on 1 January 2004. CEPA aims at attracting investments to and providing a preferential market in Hong Kong for easier access to markets either in the PRC or Hong Kong. Economic in the PRC and Hong Kong are shown rebounding from the outbreak of the deadly SARS and blooming. The management is optimistic that the Group's rental incomes from the investment properties would be creeping up gradually.

The management expects the Group would benefit from the signing of the CEPA with the PRC, the entry of the PRC to the World Trade Organization and free entry of the PRC citizen travelers to Hong Kong. The Group will seize these opportunities to explore any new emerging potential business to diversify the Group's business portfolio for more steady incomes.

In view of the worldwide economic uncertainties, the Company had already sharpened its competitive edge. The Group will continuously adopt stringent cost control measures and strive to enhance the market penetration of the high technology products to generate plausible stable and recurring incomes to the Group.

The Group will be engaged in continuous the debt restructuring to make the financial position of the Group more healthy through active negotiations with financial institutes or creditors for flexible repayment terms or an extension of the debt repayment.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30th June, 2003, the gearing ratio of the Group slightly increased to 328% (2002: 160%). It was computed on the base of the aggregate interests bearing loans, which comprise of bank borrowings, loans, overdraft, other borrowings and obligations under hire purchase contracts and finance lease, divided by the amount of shareholders' equity.

As at 30th June, 2003, the Group had borrowings with bank, third parties and financial institutions approximately amounting to HK$70 million (2002: HK$93 million) and long-term borrowings approximately amounted to nil (2002: HK$0.2 million). The loans were at interests of prevailing commercial lending rates.

All of the Group's bank balances and borrowings were denominated in Hong Kong dollars, United States dollars and Renminbi, risk in exchange rate fluctuation would be immaterial. Thus, the Group does not use any hedges.

During the year under review, disposal of the entire issued share capital of World Giant Limited to independent third parties generated to the Group a cash proceed of HK$57 million. New short-term loans, amounting to approximately HK$15 million in aggregate, were advanced to the Group by several independent third parties subsequent to the year under review. The management believes such disposal and loans advancements would improve the Group's liquidity.

CONTINGENT LIABILITIES

As at 30th June, 2003, the Group had contingent liabilities in respect of the corporate guarantee to a former related company for securing its leasing facility, amounting to approximately HK$4.6 million (2002: HK$4.6 million). The corporate guarantee to a related company was given with back-to-back guarantee by the former related company.

In addition, pursuant to an agreement entered into by the Company, two of its subsidiaries and two third parties in February 2003, the Group had disposed of a subsidiary, World Giant, a company engaged in property investments in the PRC. In this connection, the Company has undertaken to indemnify World Giant for, among others, any increase in the liabilities of World Giant as a result of any claim for taxation arising from any transactions effected on or before the completion date of the above disposal. In October 2004, World Giant received a payment request from the PRC tax authority in respect of PRC property taxes relating to the property held by World Giant in the aggregate amount of approximately HK$8 million, including the late payment surcharge levied by the tax authorities, of which approximately HK$6.1 million was in respect of transactions on or before the completion date. The existing management of World Giant has indicated to the Directors that the amount in respect of transactions on or before the completion date should be paid by the Company. However, the Directors are of the opinion that as such amount has been fully accrued in the accounts of the World Giant at the time of disposal, the Company has no obligations to pay the above taxes. Accordingly the Directors are currently discussing with the existing management of World Giant on this matter and consider that the outcome of this discussion will not have a material adverse effect on the financial position of the Company or the Group.

PROPERTIES PORTFOLIO

The Group's properties portfolio (including investment properties and properties held for sales) were valued at approximately HK$133.5 million (2002: HK$204.6 million) at 30 June 2003.

- Investment property in Hong Kong: Revaluation surplus of approximately HK$1.1 million (2002: HK$12.5 million revaluation deficits) has been credited to the consolidated income statement during the year.

- Property held for sale in the PRC: Allowance of approximately HK$12.4 million (2002: HK$33.2 million) has been charged to the consolidated income statement during the year.

CHARGE ON GROUP ASSETS

Certain of the Group's properties portfolio, were pledged to secure bank and other loan facilities amounting to HK$62.6 million in aggregate (2002: HK$121.6 million) to certain financial institutions.

STAFF AND REMUNERATION POLICIES

The Group had about 40 staff during the year under review. Staff were rewarded in link of their individual performance, the Group's performance and the prevailing market salary rate. Staffs with outstanding performance will be granted share option.