

## Management Discussion and Review

### GENERAL

Upon the completion of the unconditional cash offer on 17th October, 2003 to acquire all the issued shares of the Company by Sun Hung Kai International Limited on behalf of Winning Concept Investments Limited ("Winning Concept"), the new management stepped in and took over the management of the Group.

### FINANCIAL REVIEW

For the year ended 30th June, 2004, the Group's turnover was approximately HK\$11.26 million (2003: HK\$25.04 million), representing a decrease of 55% as compared with last year's turnover.

The loss attributable to shareholders of the Group for the year ended 30th June, 2004 decreased by HK\$9.13 million, or approximately 7.7%, to approximately HK\$109.31 million (2003: HK\$118.44 million) as compared with previous financial year.

Net loss for current year was mainly due to allowance for trade and other receivables for approximately HK\$30.07 million (2003: HK\$6.73 million), allowance for short-term loans receivable for approximately HK\$16.53 million (2003: HK\$17 million), unrealized holding loss on investment securities for approximately HK\$26.37 million (2003: HK\$17.96 million gain), and impairment loss on investment securities for approximately HK\$18.42 million (2003: HK\$25 million). These allowances, provisions and impairment losses were primarily related to assets owned before takeover of the Group by the new management.

### BUSINESS REVIEW

During the year under review, the residual impact of SARS (Severe Acute Respiratory Syndrome) continued to adversely affect the performance of the Group from July 2003 to October 2003. With the new management taking over from October 2003, a prudent approach had been adopted in running the business, considerable efforts and resources had been devoted to reviewing and rationalising the Group's operations and systems, and to solving issues left over from the previous management.

As a result, little or no growth in the Group's turnover was recorded for all business segments, such as (1) distribution and trading; (2) provision of website, advertising and design services; (3) provision of travel agency services; (4) investment and financial services; (5) provision of entertainment services; and (6) provision of telecommunications services.

As part of the rationalization strategy, loss-making companies were sold in December 2003 to prevent further losses. These companies were mainly engaged in the provision of entertainment services and telecommunications services. Hence, the Group's total turnover for the year under review was further reduced.

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Facing a reduced business volume, the new management had been successful in controlling cost by cutting the administrative expenses by approximately HK\$35.2 million, or approximately 67.2%, to approximately HK\$17.19 million (2003: HK\$52.39 million).

### (1) Distribution and trading

The market for distribution and trading was seriously affected by the lingering effects of SARS from July 2003. The new management had been understandably cautious in screening new trading products and formulating distribution strategies before pitching in business in this sector.

### (2) Website, advertising and design services

This sector had also been affected severely by SARS since July 2003. In order to reduce unnecessary capital investments and operating costs, the new management had been actively considering proposals to team up with business partners with strong technical capabilities in computer software and hardware.

### (3) Travel agency services

Heavy competition in travel agency market and the sluggish recovery of overseas travel due to the adverse impacts of SARS had made this sector unprofitable. The new management has been considering whether it would make sense to continue allocating resources to this sector.

### (4) Investment and financial services

This sector had become the main contributor in the Group's total turnover for the year under review. The new management had been actively seeking business opportunities in this sector.

### (5) Entertainment services

Disposal of subsidiaries engaging in entertainment services in December 2003 had dramatically reduced turnover in this sector. The new management had been actively exploring opportunities of re-establishing businesses in this sector.

### (6) Telecommunications services

Disposal of subsidiaries engaging in telecommunications services in December 2003 had dramatically reduced turnover in this sector. The new management had been exploring opportunities of re-establishing businesses in this sector.

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The Group during the year has completed an Open Offer and net proceeds of approximately HK\$33.38 million have been received. The proceeds will be used as general working capital of the Group and investment funding for expanding the Group's business when opportunities arise.

Soon after the new management team took over the running of the Group's daily business in October 2003, it was discovered that certain records of the Group could not be found. The previous management had been contacted with repeated requests to locate the said records. As this is a serious matter, the new management had taken appropriate actions to protect the Group's legal rights.

### FUTURE PROSPECTS

With the gradual recovery of the local economy and the continuing growth in China trade as a result of the Closer Economic Partnership Arrangement, the Group believes a strong demand exists for short to medium term funding. The Directors consider that it is the appropriate timing for promoting the Group's money lending business, a major contributor to the Group's core business which, would generate reliable and substantial income for the future. The Group will therefore allocate more resources to promote the money lending business.

The new management will use its best endeavour to continue the implementation of the cost reduction plans. Existing businesses will be rationalized by centralizing operations, systems and the disposal of unprofitable businesses. Management focus will be on the current three main business segments including (i) distribution and trading; (ii) provision of entertainment services; and (iii) investment and financial services. This is in response to the local economic recovery and the upsurge of demand from inbound tourists under the Individual Visa Scheme.

### LIQUIDITY AND FINANCIAL RESOURCES

The Group maintains its adequate financial position with cash and cash equivalents of approximately HK\$6.82 million (30th June, 2003: HK\$2.78 million). The Group is debt-free and at a net cash position.

As at 30th June, 2004, the Group had a net current assets of approximately HK\$38.51 million (30th June, 2003: HK\$95.12 million). The shareholders' equity was of approximately HK\$68.81 million (30th June, 2003: HK\$144.99 million) and there is no outstanding bank loan and other borrowings (30th June, 2003: HK\$1.5 million), and accordingly the gearing ratio was zero (30th June, 2003: 0.013).

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## FINAL DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 30th June, 2004.

## CONTINGENT LIABILITIES

On 10th November, 2000, the Company was named as a defendant in a legal action in which a claim was made against the Company for failure to pay, as the guarantor, an amount of approximately HK\$5,996,000 and interest thereon. In January 2003, the Company's lawyers had sought discovery of the original copies of the relevant documents from the plaintiff and yet the plaintiff had failed to respond or furnish any of the requested documents. The plaintiff had since then not taken any further steps to activate the proceedings which had then become dormant for over a year. In July 2004, the Company was informed by the plaintiff of its decision of re-activating the proceedings. The directors, after seeking legal advice in July 2004, are of the opinion that a provision of HK\$5,996,000 for potential liability was made during the Year.

## EMPLOYEES AND REMUNERATION POLICIES

As at 30th June, 2004, the Group employed approximately 7 employees. The Directors of the Group reviewed remuneration policies regularly. The structure of the remuneration packages would take into account the level and composition of pay and the general market conditions in the respective countries and businesses.

## SHARE OPTION SCHEME

The Company has a share option scheme to enable the directors of the Company to grant options to eligible employees, including executive directors, of the Company and its subsidiaries to subscribe for shares in the Company. No share options were granted during the year and there are no share options outstanding as at 30th June, 2004.