

# MANAGEMENT DISCUSSION AND ANALYSIS

## REVIEW OF OPERATIONS

Turnover of the Group for the year ended 30th June, 2004 was HK\$157.2 million as compared to turnover of HK\$206.2 million for the year ended 30th June, 2003. The turnover for the year ended 30th June, 2003 included HK\$150.2 million on provision of telecommunication services which business was disposed of by the Group during that year. Excluding the discontinued operations, the turnover for the year increased by HK\$101.1 million. This was mainly due to the increase in security investment and trading activities. In addition, turnover on trading of gas related products of HK\$18.2 million was included in the Group turnover following the acquisition of Beijing Sinogas Company Limited (“Beijing Sinogas”) and its subsidiaries in March 2004.

The three months’ activities of trading of gas related products included in the consolidated income statement for the year ended 30th June, 2004 contributed HK\$3.1 million profit to the total segment results of the Group. The operating loss for the year ended 30th June, 2004 was HK\$2.1 million as compared to HK\$1.4 million for the year ended 30th June, 2003.

The net loss of the Group for the year ended 30th June, 2004 was reduced to HK\$7.0 million from HK\$20.3 million for the year ended 30th June, 2003. The associate, Beijing Shuaifu Development Co., Ltd., which the Group had recorded a share of HK\$28.3 million loss for the year ended 30th June, 2003 was disposed of during the year ended 30th June, 2004 and recorded a small amount of disposal gain.

## FINANCIAL RESOURCES

Total borrowings of the Group as at 30th June, 2004 were amounted to HK\$125.9 million of which HK\$92.2 million was to fund investments. Other borrowings were at operating subsidiaries level denominated in RMB funding the local PRC operation requirements.

Investments in securities under current assets at balance sheet date were liquid short-term investments denominated in either Hong Kong dollars or United States dollars. They were stated at market value on the balance sheet.

During the year ended 30th June, 2004, the Group was not materially expose to exchange risk.

As at 30th June, 2004, total borrowings of the Group were HK\$125.9 million and shareholders’ equity was HK\$297.5 million. Accordingly, the gearing ratio of the Group as at 30th June, 2004 was 42.3%.

## LITIGATION

The Company issued a writ of summons in the Court of First Instance in Hong Kong against China Media International Group Limited (“CMI”) on 18th February, 2004 to claim for, among others, damages for breach of the sale and purchase agreement (the “Sale and Purchase Agreement”) in relation to the sale and purchase of 35% of the issued share capital in CMEP Limited (“CMEP”) dated 2nd January, 2003 and the shareholders agreement dated 10th February, 2003 in respect of CMEP, both entered into between the Company and CMI, including (i) the amount equivalent to 35% of the difference between the net profit of CMEP for the period from the date of its incorporation to 30th June, 2003 and HK\$100 million and (ii) the amount equivalent to 35% of the corresponding amount after tax net profit on the difference between the actual amount of account receivables (as shown in the management account of CMEP as at 30th November, 2002) recovered within 9 months after the date of the Sale and Purchase Agreement and 100% of the said amount of account receivables. The action is currently in progress.

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The Company's investment in 35% interest in the issued shares of CMEP was stated at cost of HK\$137,858,000 and was recorded as investment securities in the balance sheet. In the opinion of the directors, the litigation is still in progress and it is unable to reasonably determine the final outcome of the litigation. Accordingly, the directors were unable to assess whether an impairment loss in respect of the investment in CMEP should be recognised in the financial statements and no adjustment has been made to the financial statements on this respect.

### DIVIDEND

The Board of Directors does not recommend the payment of a dividend for the year ended 30th June, 2004. The Company did not declare a dividend for the year ended 30th June, 2003.

### STAFF BENEFIT

The Company reviews remuneration packages on an annual basis. Apart from salary, other benefits include contribution to the Employee Provident Fund or Mandatory Provident Fund, medical subsidies and a discretionary bonus.

### ACQUISITION AND BUSINESS OUTLOOK

During the year ended 30th June, 2004, the Company has acquired 51% interest in the share capital of Global King Investments Limited ("Global King"). Global King's principal asset is the holding of the 100% capital of Beijing Sinogas, a wholly foreign-owned enterprise established in the People's Republic of China (the "PRC") ("Beijing Sinogas"). Beijing Sinogas and its subsidiaries ("Beijing Sinogas Group") are principally engaged in the investment, construction and operation of liquefied petroleum gas ("LPG") and compressed natural gas ("CNG") stations in the PRC, marketing and sale of plant and equipment for gas stations and provision of related system integration technology, the research, manufacturing and distribution of conversion kits for motor vehicles to switch to alternative fuel of LPG/CNG, and LPG/CNG storage and distribution. The acquisition enables the Group to benefit from the fast growing economy of the PRC. The consumption of LPG and CNG will grow together with the growth of car ownership and gross domestic product in the PRC. Also, LPG and CNG, which are more environmental friendly than gasoline, would become increasingly popular as energy sources of motor vehicles in the PRC. The Group will continue to capitalize on the experience and expertise of the management of the Beijing Sinogas Group to expand in this natural gas field.

**George Han Hsiao Yue**

*Chief Executive Officer*

Hong Kong, 29th December, 2004