

OPERATION REVIEW

During the year, the Group was principally engaged in property development; design and marketing of consumer packaged electronics. Turnover for the year was approximately HK\$1.2 million (9 months ended 31 December 2003: HK\$11.7 million) and a net profit of HK\$5.2 million (9 months ended 31 December 2003: HK\$63.5 million) was recorded. The net assets value of the Group amounted to HK\$2,419.4 million (9 months ended 31 December 2003: HK\$2,414.2 million), representing a value of HK\$0.081 per share.

The Group's net profit of HK\$5.2 million was mainly attributable from the negative goodwill released and interest income during the year.

Property Development

During the year, the Group recorded no turnover (9 months ended 31 December 2003: nil) and a segment profit of approximately HK\$8.3 million (9 months ended 31 December 2003: HK\$7.3 million) for this business division. The profit was mainly attributable to negative goodwill released for the year.

In this report period, the Company's Shenzhen property project has received the government's approval as planned, and was named "The Peninsula" which has begun construction and entered into marketing promotion phase. In view of the current market price, and the trend of supply and demand, the investment return of this property project will be very optimistic. Based on the approved construction plans and concepts, this unique cultural community will have total floor area of about 1 million sq.m.. The pre-sale of the Phase I of The Peninsula is expected to be commenced in September 2005, and this project is expected to generate strong cash inflow in the coming few years.

The architectural planning and design of The Peninsula is of world class standards, completed by a renowned French company. Boasting an unique geographical location, the development will become prime property in the South China Sea region's real estate market. The Peninsula participated in several real estate sale and promotion events in 2004, and received highly popular acclaim. The marketing campaigns conducted in early 2005 received even more spectacular feedback, rarely seen in the Shenzhen property market.

In addition, the development plan of our Guangzhou project, a super sized international contemporary commercial and residential community integrating cultural recreations and commercial amenities, is being reviewed in detail. All approval procedures are progressing as planned, with overall construction and first phase opening to be expected soon.

Consumer Packaged Electronics

During the year, turnover from this division was approximately HK\$1.2 million (9 months ended 31 December 2003: HK\$2.2 million) and a reduced segmental loss of approximately HK\$4.8 million (9 months ended 31 December 2003: HK\$6.7 million) was recorded.

The market in this industry has always been very competitive and as a result, the turnover in this division has been decreasing during the year. However, our management would continue to monitor the market and to make necessary steps to reduce the negative impact from such competitive environment.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL

The Group continues to adopt prudent funding and treasury policies. As at 31 December 2004, net assets value of the Group amounted to approximately HK\$2,419.4 million, including cash and bank balances of approximately HK\$1 million which was denominated mainly in Renminbi and Hong Kong dollars. As at 31 December 2004, the Group's bank and other borrowings increased to HK\$548.8 million (at 31 December 2003: HK\$425 million), including convertible notes amounted to HK\$200 million (which all bears an interest rate of 1% per annum and will mature on 30 July 2005) issued by the Company during the year. For the Group's bank and other borrowings, approximately HK\$388.6 million were bearing interest at fixed rates while approximately HK\$160.2 million were bearing interest at floating rates. The increase in bank and other borrowings is mainly due to the issue of the HK\$200 million convertible notes pursuant to the subscription agreement as detailed in the Company's circular dated 23 March 2004 during the year. The gearing ratio of the Group, measured on the basis of total bank and other borrowings as a percentage of total shareholders' equity increased to 23% as of 31 December 2004 from 18% as at 31 December 2003. The Group's contingent liabilities at 31 December 2004 were HK\$33.8 million due to the guarantees given in connection with credit facilities.

As at 31 December 2004, land held for development with land lot no. K708-5 at Liu Wan, Shekou, China together with all its sales proceeds; and shares in certain subsidiaries within the Group were pledged as securities for credit facilities.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATE

As the majority of the Group's borrowings and transactions are denominated in Hong Kong dollars, US dollars and Renminbi, the Group's exposure to exchange rate fluctuations is relatively insignificant. In general, the Group mainly utilizes its Renminbi income receipt for capital requirements expenditures in China and has not used any financial instruments for hedging Renminbi bank borrowings during the year and such borrowings were mainly used for Renminbi capital requirements in China.

EMPLOYEE

The Group employs and remunerates its staff based on their qualifications, experience and performance. In addition to basic salary payments, other benefits include contributions to provident fund schemes, group medical insurance, group personal accident insurance and external training sponsorship. Employees are eligible to be granted share options under the Company's share option scheme at the discretion of the board of directors. In general, salary review is conducted annually. At 31 December 2004, the Group had approximately 38 employees (at 31 December 2003: 32 employees). The salaries and allowance of employees for the year ended 31 December 2004 was approximately HK\$6 million (9 months ended 31 December 2003: HK\$9 million).

M ANAGEMENT DISCUSSION AND ANALYSIS

PROSPECT

The shareholding restructure plan with its controlling shareholder, Sino-i Technology Limited (“Sino-i”), will be completed in 2005. Afterwards, the Company will become the holding company of Sino-i. The Company’s core business will expand. Besides focusing on property development business, the Company through its subsidiary, Sino-i, will also participate in the IT business, and share in the substantial rewards from the rapidly growing information technology sector. This restructure will optimize the Company’s business operations by consolidating the structure, to facilitate the Company’s move toward a more balanced and mature stage, and achieve solid returns for shareholders.

We have completed all related procedures for the restructure, Sino-i is awaiting the High Court’s approval on capital reduction and distribution, and expects that such approval will be obtained in mid-2005. In 2005, the Company will continue to expedite implementation of the restructure plan, complete the business unit reorganization, and the remaining interest in the property development under Sino-i will be sorted out properly.

In 2005, the Company, as the holding company, will strongly support Sino-i to develop its IT sector, and steadily observe the cultural media sector developments. Through expansion of business profile, the management believes that the restructure will allow the Company to share in the benefits of the information technology, and cultural media sectors. The expansion will also lead to unforeseen growth in the Company’s finance and business, and provide foundation for consolidated development.

In 2005, the Company will continue to develop the property development business in China. In 2004, China’s real estate market experienced immense activity and rise in market price; and in the foreseeable future, the demand for middle to high class property will continue to rise. Even though market capacity and rise in real estate prices will be managed, the overall real estate and property development market trend will nevertheless continue to grow. The Company holds land reserves in Shenzhen and Guangzhou. In addition, China’s real estate sector’s continuing expansion along with the related financial, insurance and legal regulatory reforms underway, are all conducive to the development of the overall property investment and development sector in China. Therefore, the Company’s management is highly confident of the property development business in the coming years.