

BUSINESS REVIEW

Details of the operating result of the Group's business are as follows:

Real Estates

The rental income for the year was HK\$5,316,000 (2002: HK\$7,361,000) and segment results before discontinuing operation was a profit of HK\$6,668,000 (2002: a loss of HK\$35,855,000). The significant decrease in turnover was due to decrease in occupancy rate and unit charge of industrial properties as a result of the weak economy and disposal of two investment properties in January 2003. The segment loss for last year was due to HK\$41,122,000 revaluation deficit made in last year.

On 15th November, 2002, Workshop Units 1, 2, 3 and 4 on 19th Floor and Roofs 1, 2, 3 and 4 of Block B, Hang Wai Industrial Centre, Tuen Mun were disposed of at a consideration of HK\$1,300,000. On 15th January, 2003, two investment properties namely Regency Centre at 39 Wong Chuk Hang Road, Aberdeen, Hong Kong and Lea Hin Industrial Building at 43 Wong Chuk Hang Road, Aberdeen, Hong Kong were disposed of at an aggregate consideration of HK\$55,500,000.

The net loss on disposal of the above properties was HK\$7,385,000. Part of the sale proceeds were used to repay bank loans in Hong Kong.

Multimedia IT Education Joint Venture

The liquidation process of Beijing 21CN Liyang Internet Technology Service Company Limited, a joint venture established to produce and market multimedia IT education software targeted at the high school in the PRC, was completed in current year. HK\$32,506,000 was refunded and received by the Group.

Dairy Farm Operation

The dairy farm operated by the Group in New Zealand which included freehold land and buildings, livestock and investment securities held was disposed of in July 2002 at a consideration of NZD2,881,000 and the gain on disposal was HK\$1,484,000. Net proceeds of HK\$10,032,000 was received by the Group and part of the sale proceeds was used to repay a bank loan in New Zealand. The segment turnover for the year was HK\$249,000 and the segment result before discontinuing operation was a profit of HK\$317,000.

NEW BUSINESS

System Integration and Software Development

On 3rd April, 2002, the Group entered into an acquisition agreement with Mr. Chen Wen Xin (the "Vendor"), a brother of Ms. Chen Xiao Ying, who is the Chairman and a substantial shareholder of the Company. Pursuant to the acquisition agreement, the Company acquired the entire issued share capital of Joy Heaven Inc. ("Joy Heaven") and the rights to a shareholder's loan made by the Vendor to Joy Heaven. The cost of acquisition was HK\$13,000,000, including a cash payment of HK\$2,000,000 and an issue of 50,000,000 shares of the Company at a price of HK\$0.22 per share. The cost of acquisition differs from the consideration of HK\$17,000,000 previously announced in the Company's circular dated 29th April, 2002 as the issue price of the Company's shares as non-cash consideration was adjusted by the market and was accounted for at the closing price of the shares on the date of issue. The acquisition was effectively completed in piecemeal on 11th December, 2002 and 6th March, 2003, at which dates transfers of the shareholdings of certain subsidiaries of Joy Heaven were formally completed.

Joy Heaven and its subsidiaries ("Joy Heaven Group") are mainly engaged in telecommunications software development and system integration in the PRC. Joy Heaven Group has strong and stable clientele and expertise in the area of system integration in relation to telecommunications business. The clientele involves PRC government authorities and organizations with a majority engaged in post and telecommunications sector. Such acquisition is consistent with the business intention in focusing on telecommunications value added services business and developing the business software and integrated solutions by acquiring and integrating promising research and development teams, products and technologies.

In 2002, a subsidiary of Joy Heaven Group was awarded the ISO 9001 certification, the title of CISCO's silver certified partners, SUN's jade LSP, second class certificate of computer system integration company issued by the Ministry of Information Industry (信息產業部頒發之計算機系統集成企業二級資質證書) and an advance technology enterprise certificate(高新科技企業證書). All these certificates prove the quality of Joy Heaven Group and its products which enhance the status of the Group and also give confidence to customers and bring in new business opportunities.

Joy Heaven Group was established in Guangdong Province and business mainly focused in the southern region of the PRC. After the acquisition of Joy Heaven Group, with the assistance and support from the Group, a sales and technical team has been set up in Beijing to explore the market in the northern region of the PRC.

A goodwill of HK\$3,167,000 was resulted upon the completion of the acquisition. The post-acquisition turnover and result of Joy Heaven Group are HK\$5,035,000 and a loss of HK\$6,620,000 respectively. The loss is mainly due to the severe competition in the system intergration market and large research and development costs incurred in the telecommunications software development. The trade receivable and trade payables balance of the Group increase significantly in current year mainly due to the contribution of Joy Heaven Group. As most of the contracts performed by Joy Heaven Group are with a life span over 1 year, most of the trade receivable and payable balance are with age over 1 year.

OUTLOOK

Although the global economy remained uncertain, the directors believe the economy in the PRC will continue to grow in a rapid rate with its accession to the WTO. The business opportunities lying ahead are tremendous.

The financial position of the Group remains strong. As at 31st March, 2003, the cash and bank balances amounted to HK\$75 million and there was no bank borrowing outstanding. The management will continue to seek opportunities to realise the properties on hand and focus our resources on the telecommunications and internet related business. At the same time, the management will continue to proactively identify investment opportunities in the PRC and make use of our internal resources to finance such activities.

In the meantime, the Group will keep on adopting tight cost control measures and pay extra attention on the market conditions for business opportunities.

FINANCIAL REVIEW

Turnover and gross profit

A turnover of HK\$10,600,000 (2002: HK\$10,464,000) was recorded for the year ended 31st March, 2003 of which include HK\$5,035,000 (2002: nil) from the newly acquired system integration and software development business. The gross profit declined from HK\$7,033,000 for the year ended 31st March, 2002 to HK\$5,698,000 for the year ended 31st March, 2003 as the newly acquired business contributed a thinner profit margin.

Other revenue

Other revenue represents mainly the interest income from bank deposits. The significant decrease is mainly due to continuous drop of bank deposit rates.

Selling and administrative expenses

Operating expenses decreased from HK\$41,606,000 for the year ended 31st March, 2002 to HK\$22,357,000 for the year ended 31st March, 2003 even a new business was acquired during the year. The decrease was due to significant decrease in staff cost and other administrative expenses as a result of continuing tight cost management.

Net loss on discontinuing operations

During the year, the Group successfully disposed of the dairy farm operation in New Zealand and all investment properties in Hong Kong and completed the liquidation process of the multi-media joint venture. The net loss on these discontinuing operations are HK\$6,292,000.

Other operating expenses less income

Other operating expenses less income decreased from HK\$41,900,000 for the year ended 31st March, 2002 to HK\$3,167,000 for the year ended 31st March, 2003. Prior year's amount comprised a significant revaluation deficit of investment properties of HK\$40,646,000 while no significant deficit arising on revaluation of investment properties occurred in current year. The other operating expenses in current year represented impairment loss of goodwill on acquisition of new business.

Loss attributable to shareholders

Net loss from ordinary activities attributable to shareholders decreased significantly from HK\$77,400,000 for the year ended 31st March, 2002 to HK\$27,054,000 for the year ended 31st March, 2003.

Liquidity and financial resources

The shareholders' fund and net current assets of the Group as at 31st March, 2003 was HK\$102,034,000 (2002: HK\$117,443,000) and HK\$55,900,000 (2002: HK\$32,786,000) respectively. The Group maintained a solid financial position with cash and bank balances of HK\$75,342,000 as at 31st March, 2003 (2002: HK\$20,115,000). The Group generally financed its activities by its internal resources. The Group believes that the existing reserves and its internal resources available will enable the Group to meet its future cash requirement.

Capital structure

As at 31st March, 2003, the Company had issued a total of 3,109,266,000 shares. During the year, 50,000,000 ordinary shares of HK\$0.01 each were issued as part of the consideration for the acquisition of the system integration and software development business. No outstanding bank loans existed as at year end date.

Charges on group assets

There was no charge on the Group's assets as at 31st March, 2003.

Gearing ratio

During the year ended 31st March, 2003, all bank borrowings were repaid after the disposal of two investment properties in Hong Kong and a dairy farm in New Zealand. The gearing ratio of the Group as at 31st March, 2003, calculated by all interest-bearing borrowings over shareholders' funds, was only 4.78% (2002: 29.84%).

Exposure to fluctuations in exchange rates

The Group's transactions and cash and bank balances are mainly denominated in Hong Kong dollars, Renminbi and United States dollars. The directors consider that Renminbi and United States dollars are stable and the exposure to exchange fluctuation is minimal.

Contingent liabilities

As at 31st March, 2003, the Group has a contingent liability of HK\$200,000 for guarantees given in lieu of utility deposits.