

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Hotel

In July 2002, the Group signed an agreement with a wholly owned subsidiary of Hutchison Whampoa Group ("Hutchison Whampoa") to acquire a 100% interest in 昆明海逸酒店 Harbour Plaza Kunming (the "Hotel"). The Hotel is located in Kunming, the capital city of Yunnan province of the PRC. The total consideration is HK\$316.11 million, of which HK\$161.11 million was settled by cash as to HK\$44.86 million and by way of a promissory note as to HK\$116.25 million, and the balance of HK\$155 million is settled by the issuance of a 2% convertible note due 8 November 2004. The transaction was completed on 8 November 2002. Being the holder of the convertible note, Hutchison Whampoa may at any time convert the note, in whole or in part, into new shares of the Company at an initial conversion price of HK\$0.76 per share (subject to adjustment).

The Hotel is a 5-star hotel in Kunming managed by an international hotel management group. Upon completion of the transaction, the Group has appointed Harbour Plaza Hotel Management Company Limited to continue managing the Hotel in order to ensure its quality of service and business performance. Following the rapid development of the Chinese economy and the travel industry, the Tourist Bureau of Yunnan has started to promote aggressively the scenery spots in Kunming. The number of tourists going to Kunming has been growing. The Group is confident in the prospect of the Hotel. Upon the completion date, the Hotel has become the wholly owned subsidiary of the Company. Its business performance will be consolidated into the Group's financial statements and reflected in the Group's 2002/2003 annual report.

Trading

In April 2002, Goldwiz Huarui (H.K.) Limited ("Goldwiz Huarui"), a wholly owned subsidiary of the Company, has started to distribute the products of 銅陵華瑞電子材料有限公司 (Tongling Huarui Electronic Material Co., Ltd.) ("Tongling Huarui"). The Company is holding 33.36% effective interest in Tongling Huarui as a long-term investment. Tongling Huarui manufactures copper clad laminates and prepreg sheets which are used in the manufacturing of printed circuit boards for electronic products. Goldwiz Huarui plans to expand the market to the United States, Taiwan and Korea by appointing local agents. For the half year ended 30 September 2002, the Group has recorded a turnover of HK\$2.63 million from Goldwiz Huarui's business.

Property Investment

In November 2001 and May 2002, the Group has signed contracts with two independent parties for the disposal of 15 shop units in the CTS Centre in Guangzhou, the PRC, at a total consideration of HK\$142 million. Up to now, the Group has already received approximately 50% of the total consideration. Since the buyer for the first lot of shop units has delayed the completion, the Group has received HK\$2.5 million as penalty interest. The profit of approximately HK\$11 million from the disposal of this lot will be booked into the accounts for the year ended 31 March 2003. The buyer for the second lot of the shop units is expected to settle the balance payment including any penalty interest next year. The related profit will be reflected in the accounts of the relevant financial period.

Securities Investments

The Group is holding 17.66% effective interest in Techwayson Holdings Limited which has recorded a turnover of RMB8.27 million for the quarter ended 30 September 2002, representing an increase of 26.4% when compared with last year. Profits attributable to shareholders amounts to RMB3.11 million, more than three fold of the figure for the same period last year. Since that company did not declare any dividend, the Group has not received any income from this investment during the period under review.

阿爾波地實業（深圳）有限公司 (Albordy Industrial Limited) ("Albordy"), in which the Group holds a 23 % effective interest, is developing high tech consumer electronics market apart from its software business. It plans to sell and develop products including mobile phones and web-based point-of-sales machines for the PRC market. Albordy is optimistic on the prospect and potential of that market.

Prospects

The Company is confident towards its long-term securities investments and expects steady growth in the hotel business. However, as a whole, the Directors remain cautious of the outlook in view of the slow recovery of the global economy. The Group will keep actively seeking for quality projects to strengthen its investment portfolio.

Financial Review

Financial results

The Group's unaudited consolidated loss after tax for the period ended 30 September 2002 amounted to approximately HK\$3 million (2001: HK\$1 million). Loss per share for the period was 0.29 cents, as compared to 0.14 cents for the corresponding period of the previous year. The increase in consolidated loss was mainly due to the expenses incurred in the acquisition of the Harbour Plaza Kunming during the period.

Financial resources and liquidity

During the period, the Group has repaid a total of HK\$7 million to the major shareholder, Open Mission Assets Limited. To continue its financial support to the Group, Open Mission has agreed to waive the interest for the period. The finance cost for the period was significantly reduced to HK\$0.2 million.

As at 30 September 2002, the Group's current assets and current liabilities were approximately HK\$43.1 million and HK\$62.7 million respectively. The current ratio, based on the percentage of current assets over current liabilities was 0.69:1. The cash and bank balance of the Group at the balance sheet date was approximately HK\$1.5 million (31/3/2002: approximately HK\$2.1 million). With the continuous financial support from the major shareholder, the Group is confident that it will be able to meet the normal business requirement in the future.

At 30 September 2002, the Group's gearing ratio was 30% (31/3/2002: 19%) which is calculated based on the Group's total liabilities of \$99.96 million (31/3/2002: HK\$62.88 million) and the shareholder's fund of HK\$330 million (31/3/2002: HK\$333 million). The increase in the total liabilities by HK\$51 million was mainly due to the deposit received in respect of the sale of CTS Centre, the transactions of which have not yet been completed as at 30 September 2002.

Exposure to fluctuations

As the Group's earnings and borrowings are primarily denominated in Hong Kong dollars or Renminbi, it has no significant exposure to foreign exchange rate fluctuation.

Charges on assets

During the period, all the fixed deposit pledged with the banks in the amount of approximately HK\$6.3 million has been withdrawn to settle the tax liabilities owed by the Group to the Inland Revenue Department and to release the security given by the banks for payment of tax debts owed by Toy House Industry Limited, a wholly-owned subsidiary of the Company to the Inland Revenue Department.

At 30 September 2002, the Group had no pledged assets.