# Management Discussion and Analysis

## FINANCIAL RESULTS

The Group's audited consolidated loss after tax for the year ended 31 March 2003 amounted to approximately HK$71.22 million (2002: HK$26.36 million). Loss per share for the year was 6.71 cents, showing an increase of 3.63 cents as compared with the previous year. The increase is caused mainly by the provision for diminution in value of the Group's long-term investment securities.

## DIVIDENDS

The Board of Directors does not recommend the payment of any dividend in respect of the financial year ended 31 March 2003.

## BUSINESS REVIEW

### Hotel operations

In early November 2002, the Group completed the acquisition of 100% interest in Harbour Plaza Kunming Co. Ltd. (the "Hotel Company") at a total consideration of approximately HK$316 million, HK$161 million of which is represented by cash and the issuance of a promissory note whilst HK$155 million is represented by the issue of a 2% convertible note due 2004, both are issued in favour of Hutchison International Limited. During the period from the completion of the acquisition to the financial year-end, the Hotel Company contributed a total turnover of HK$18.4 million to the Group. The outbreak of SARS since early March 2003 has created an unexpected interruption to many economic activities, especially tourism, hospitality and entertainment industries. It has also affected the operation of Harbour Plaza Kunming (the "Hotel"). The average occupancy rate of the Hotel during the period from March to June 2003 has shrunk by more than 50%. However, the Company expects that the performance of the Hotel will return to normal for the second half of the year 2003.

### Trading

The trading business of Goldwiz Huarui (HK) Limited ("GHHK") during the year is encouraging. Since April 2002, GHHK started to distribute to Hong Kong, China and the overseas markets copper clad laminate products manufactured by 銅陵華瑞電子材料有限公司("銅陵華瑞"). In November 2002, GHHK has entered into a cooperation agreement with a Korean company under which GHHK is to distribute to Hong Kong and China markets paper phenolic products manufactured by the Korean company. During the year under review, GHHK contributed about 33% of the total turnover of the Group. There is an indication of a growth in the demand for these products generally and the company is cautiously optimistic about the prospect.

### Property investments

In March 2003, the disposal of 8 shop units of CTS Centre, Guangzhou was completed and a profit of HK$11 million arising from this disposal has been reported in the consolidated income statement. Disposal of the remaining shop units of CTS Centre has been completed subsequent to the balance sheet date.

### Strategic investments

In May 2003, the Group further acquired 77% equity interest in Smart Idea Enterprises Limited ("Smart Idea") from an independent party at a consideration of HK$10 million. Smart Idea is the holding company of 阿爾波地實業(深圳)有限公司and Albordy Trading Limited. After the acquisition, Smart Idea became the wholly-owned subsidiary of the Company. Since then, 阿爾波地實業(深圳)有限公司was renamed as 科維電氣(深圳)有限公司("GE Shenzhen") and Albordy Trading Limited

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as Goldwiz Electric Trading Limited ("GE Trading"). GE Shenzhen is principally engaged in the research and development, design, production of high-tech consumer electronic products, especially mobile phones, whilst GE Trading is the trading arm of GE Shenzhen. It is expected that the first batch of mobile phones will be introduced to the market by end 2003. For the 12 months ended 31 December 2002, GE Shenzhen reported an audited net profit of approximately RMB12 million (about HK$11.3 million). GE Trading is a newly incorporated company, no turnover has yet been recorded. As GE Shenzhen has not declared any dividend for its financial year ended 31 December 2002, the Company received no dividend income during the period under review in respect of the investment in this company.

Face with the keen competition, increasing cost of materials, particularly during the period of Middle-East crisis, and the continuous bog-down economy, the performance of 銅陵華瑞 has dropped by more than 50% as compared with the previous year, reporting an audited net profit of approximately RMB3 million (about HK$2.83 million) for the 12 months ended 31 December 2002. However, 銅陵華瑞 believes that, barring unforeseen circumstances, with the growing demand on copper clad laminate products its performance will be better in the coming 12 months. 銅陵華瑞 has taken steps to improve its production performance and product quality in order to meet the market challenge. The Company holds 33.36% in 銅陵華瑞 as a long-term investment. As 銅陵華瑞 has not declared any dividend for its financial year ended 31 December 2002, the Company received no dividend income during the period under review in respect of the investment in this company.

In end of January 2003, Techwayson Holdings Limited withdrew its listing from the Growth Enterprises Market and was admitted to the Main Board of the Stock Exchange. Techwayson supplies automation and control system to industries and buildings. The group generated most of its sales revenue from fixed price contracts of system integration services as well as sales of system control equipment and software products. Since July 2002, Techwayson group has shifted more of its marketing effort to the distribution and sales of automation products, including products under the brands of Rockwell, Omron, Invensys, Greystone and Ortronics. For the 12 months ended 30 June 2002, Techwayson reported an audited net profit of approximately RMB45 million (about HK$42.4 million). As Techwayson has not declared any dividend for its financial year ended 30 June 2002, the Company received no dividend income during the period under review in respect of the investment in this company. For the nine months ended 31 March 2003, Techwayson had an unaudited net profit of RMB17 million (about HK$16.0 million).

In December 2002, the Group has committed to make a 10% investment in a property development project in Chang Shou Lu, Shanghai for a consideration of RMB4.5 million (HK$4.23 million). The balance of the 90% investment is held by an independent third party who is not related to the Group. The total construction area of the building, comprising a podium of 11,700 $m^2$ and a main building of 61,054 $m^2$, is 72,754$m^2$ of which 34,054$m^2$ has been completed. The remaining area of 38,700$m^2$ is expected to be completed within 1.5 years. Of the completed area, 6,679$m^2$ have been sold. Upon completion, the development will comprise 40-storey building with 5 floors commercial podium and 2 basements for car-parking. It is initially planned that the building will be developed for sale or lease as commercial offices. With the rising demand on commercial building in Shanghai coupled with the good location of the development, the Group foresees that the investment will bring a lucrative return to the Group.

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## FINANCIAL REVIEW

### Liquidity and financial resources

As at 31 March 2003, the Group's total assets amounted to approximately HK$591 million (2002: approximately HK$396 million), an increase of HK$195 million or about 50% when compared with the previous year. The increase was mainly due to the acquisition of the hotel properties of the Hotel Company.

The Group's net asset value per share as at 31 March 2003 was HK$0.24 per share as compared to HK$0.39 per share as at 31 March 2002.

Loss per share for the year under review was 6.71 cents as compared with the previous year's loss of 3.08 cents. The increase in the loss per share was mainly due to the making of a higher provision for diminution in value of the Group's long-term investment securities of approximately HK$70 million.

During the year, no further advancement was made by Open Mission Assets Limited ("Open Mission") to the Group. The Company has managed to repay HK$33.2 million to Open Mission. At the balance sheet date, the Group had cash and bank balance of approximately HK$16.5 million (2002: HK$2 million).

As at 31 March 2003, the Group had a working capital ratio of 1:4.38 (2002: 1:2.06) and a current liabilities to equity ratio of 1:1.86 (2002: 1:17.96) with equity being defined as the total of capital and reserves.

Finance costs for the year amounted to HK$4.3 million (2002: HK$4.25 million) which comprised mainly the interest amounts payable under the promissory note and convertible note issued during the year.

The Group has no significant capital commitment as at 31 March 2003 which would require a substantial use of the Group's present cash resources or external funding.

### Treasury Policy and Exposure to Fluctuation in Exchange Rates

The Group's bank and cash balance rose to approximately HK$16.5 million (2002: approximately HK$2 million) primarily due to the receipt of proceeds from sale of investment properties in the PRC and the sales revenue generated from the trading business and the Hotel Company. Cash is generally placed in short term deposits denominated in Hong Kong dollars and are mainly for working capital.

At present, the Group's major investments and business activities are in the PRC, the income from these investments will be in Renminbi or Hong Kong dollars, the exposure to foreign exchange risk is minimal. The Group has not arranged any financial instruments for hedging purposes. The management will continue to monitor the foreign exchange exposure of the Group and will take necessary cautious measures if deemed appropriate.

### Contingent Liabilities

As at 31 March 2003, the Group had no contingent liabilities.

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### Charges on assets

During the year, Pacific Peace Investments Limited, a wholly-owned subsidiary of the Company, has executed a Share Mortgage over all the equity interests in the shares of Risdon Limited in favour of Hutchison Hotels Holdings (International) Limited ("HHHIL") to secure the obligations of the Company under (i) the Promissory Note dated 24 July 2002, details of which were disclosed in note 25; and (ii) the Convertible Note dated 8 November 2002, details of which were disclosed in note 26, in relation to the Company's acquisition of 100% equity interest in Risdon Limited, the holding company of the Hotel Company. Upon completion of the said acquisition on 8 November 2002, Risdon Limited executed a Mortgage over 100% of its equity interest in the Hotel Company in favour of HHHIL to secure all the obligations of the Company under the Promissory Note and Convertible Note.

## EMPLOYEE

The Group is an equal opportunity employer. Selection and promotion of individuals are based on suitability for the positions offered. The salary and benefit levels of the Group's employees are kept at a competitive level and the employees are remunerated based on their work performance, professional experiences and prevailing industry practices. The Group does not have any share option scheme.

As of 31 March 2003, the Group employed about 470 employees, of which 447 are the employees of the Hotel Company under the management of Harbour Plaza Hotel Management Limited. The employees of the Hotel Company are rewarded on a performance related basis within the general framework of the Hotel's salary and bonus system which is reviewed annually.

The remuneration policy and package including basic salaries, medical coverage, insurance plan and discretionary bonus are subject to periodical review of the respective management. In addition, training and development programmes are provided on an ongoing basis to employees of the Group to raise productivity and to maintain a high standard of service for the Hotel.

## PROSPECTS

During the year under review, the Company has taken prudent steps to widen its businesses in the PRC into selected industries with promising future: industrial related products trading, hospitality and consumer electronics. These industries are expected to benefit from the growing economy of the PRC, which is one of the world's largest economies with a purchasing power parity of US$6 trillion.

The year ahead will be a challenging year for the Group as most of its activities are still in teething stage. Besides, it will also be facing a very competitive market in the PRC from both international and local companies. In light of the competitive environment, the Group needs to keep a tight rein on its operational and financial control, and to strengthen its work force. Control of operational and financial costs will help to maintain a stabilized profit margin. Implementation of a successful human resources strategy will be another key factor in which more resources will have to be allocated to the training of personnel and to the continual recruitment of quality work force.

Barring unforeseen circumstances, the Company is convinced that it is moving steadily in the right direction and expects that the businesses in these selected industries will be able to generate reasonable return. However, the Company will always be open to take in investment opportunities which will bring in lucrative return.