

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

The Group's unaudited consolidated loss attributable to shareholders for the period ended 30 September 2003 amounted to approximately HK\$8.74 million (2002: HK\$3.10 million). Loss per share for the period was 0.82 cents, as compared to 0.29 cents for the corresponding period of the previous year. The increase in the loss was mainly due to the financial costs amounting to HK\$3.63 million arising from the issuance of the promissory note and convertible note as well as the expenses incurred on research, development and administration by subsidiaries.

Turnover for the period under review was increased by about 19 times to HK\$49.17 million (2002: HK\$2.63 million), 59% of which was contributed by the trading business whilst the remaining by the hotel business.

BUSINESS REVIEW

Hotel operation

Turnover of the Harbour Plaza Kunming (the "Hotel") from April to June 2003 was adversely affected by the outbreak of Severe Acute Respiratory Syndrome ("SARS") dropping to a low level of RMB1.95 million (HK\$1.83 million). However, it showed a strong recovery from July when the outbreak was put under control and the local Yunnan Government lifted the group travel restriction. The occupancy rate of the Hotel rebound from a low level of about 23% in May 2003 to a high level of about 80% in August 2003. There has been a high demand for business meeting facilities after the SARS crisis. The Kunming city government is finalizing a "New Kunming" project, with the intention to make a total investment of RMB200 billion (HK\$188 billion) over the next 18 years aiming to lift the city's image both domestically and internationally. Kunming city is destined to continue as the center of corporate activities in Yunnan province. Although the Yunnan Tourism Bureau indicates that there will be no development of new hotels in the next three years, the Hotel will face competition of over-supply of existing hotels.

Trading

For the period under review, Goldwiz Huarui (HK) Limited ("GHHK") contributed about 59% of the Group's total turnover (2002: 100%). The products (electronic products related materials) distributed were mainly for the PRC (including Hong Kong), Korea and India markets. Recently, GHHK has signed a consignment agreement with a notable PCB (printed circuit board) company in Hong Kong for the distribution of its products. The Company is confident that this cooperation will improve turnover and income of the Group in the coming year. GHHK is also planning to widen its distribution channels to South East Asia and the Europe markets.

Long-term securities investments

Techwayson

Techwayson Holdings Limited has recorded an unaudited consolidated turnover of approximately RMB67.66 million (HK\$63.60 million) for the first quarter ended 30 September 2003, representing a significant increase of more than 700% when compared with the corresponding period of the preceding year. The unaudited consolidated profits attributable to shareholders amounts to approximately RMB3.31 million (about HK\$3.11 million), representing an increase of 6% when compared with the corresponding period of last year. Since Techwayson did not declare any dividend, the Group has not received any income from this investment during the period under review.

Tongling Huarui

In September 2003, a wholly-owned subsidiary of the Company has signed a conditional sale and purchase agreement with two independent third parties (the "Vendors") for the acquisition of further 47% equity interest in 銅陵華瑞電子材料有限公司 ("Tongling Huarui") at a total consideration of approximately HK\$19.76 million. The transaction is subject to the completion of the due diligence investigation to be carried out by the Group to its reasonable satisfaction in relation to the legal transfer and registration ownership of the Vendors of the 47% interest in Tongling Huarui. If the above conditions are not fulfilled or waived within 4 months (or such later date as agreed among the parties) upon signing of the aforesaid agreement, the Company has the right to terminate the transaction. Should the acquisition be completed, Tongling Huarui shall become a subsidiary of the Company and its performance shall be consolidated into the Company's financial statements for the forthcoming financial years. For the nine-month period from 1 January 2003 to 30 September 2003, Tongling Huarui recorded an unaudited net profit of approximately RMB3.04 million (approximately HK\$2.86 million). Since Tongling Huarui did not declare any dividend, the Group has not received any income from this investment during the period under review.

Shanghai property development

The relevant approval and registration procedures for the Company's investment in the Shanghai property development have been completed. The development building was renamed as 「科維大廈」 since November 2003. Construction work on the development of the building is still under progress and it is expected to be completed within 18 months.

Acquisition of the remaining interest in Smart Idea

On 1 May 2003, the Group completed the acquisition of further 77% equity interest in Smart Idea Enterprises Limited ("Smart Idea") from two independent third parties at a total consideration of HK\$10 million. Since then, Smart Idea became the wholly-owned subsidiary of the Company. Smart Idea is the holding company of 科維電氣(深圳)有限公司 (formerly known as 阿爾波地實業(深圳)有限公司) ("GE Shenzhen") and Goldwiz Electric Trading Limited (formerly known as Albordy Trading Limited) ("GE Trading"). GE Shenzhen is a provider of multi-media/mobile terminal solutions and products whilst GE Trading is the trading arm of GE Shenzhen. To cater for its future expansion especially on research and development for new products, the registered capital of GE Shenzhen has been increased to HK\$100 million since August 2003 and that Smart Idea shall further inject investment capital of HK\$90 million within 3 years. The additional capital shall be sourced from the internal funding of the Group and/or the shareholder's loan to be advanced by the Company's major shareholder. In December 2003, GE Trading has obtained the right to use and distribute mobile phones under the brand name of "Capitel/首信" to the overseas markets. Subsequently, GE Trading has granted the sole distribution right to an independent Hong Kong company to distribute an aggregate value of not less than US\$36 million before 2003/2004 financial year-end.

FINANCIAL REVIEW

Liquidity and financial resources

At 30 September 2003, the cash and cash equivalent of the Group was approximately HK\$28.38 million (31/3/2003: HK\$16.54 million). The increase was mainly due to the receipt of the sale proceeds balance for the disposal of certain shop units in CTS Centre, Guangzhou.

During the period, Open Mission Assets Limited continued to give financial support to the Group by advancing about HK\$9.19 million shareholder's loan and waiving the interest incurred for the period. The loan is unsecured and without any fixed repayment term.

At 30 September 2003, the Group's gearing ratio was 125% (31/3/2003: 135%) which is calculated based on the Group's total liabilities of HK\$302.92 million (31/3/2003: HK\$340.12 million) and the shareholders' fund of HK\$241.70 million (31/3/2003: HK\$251.09 million).

As at 30 September 2003, the Group's current assets and current liabilities were approximately HK\$60.74 million (31/3/2003: HK\$30.84 million) and HK\$127.54 million (31/3/2003: HK\$135.12 million) respectively. The current ratio, based on the percentage of current assets over current liabilities was 0.48:1 (31/3/2003: 0.23:1). With the financial support from the major shareholder and the improved trading business, the Directors believe that the Group is able to meet its normal business requirement.

At 30 September 2003, the Group did not have any committed bank borrowing or facilities. However, with the increasing trading activities of the Group, the Company may seek banking facilities to support the business.

Exposure to fluctuations

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

Charges on assets

At 30 September 2003, the following assets of the Group were pledged to Hutchison International Limited ("HIL") to secure against the Company's obligations under the non-transferable promissory note and convertible note issued on 24 July 2002 and on 8 November 2002 respectively in favour of HIL in relation to the acquisition of the entire equity interest in Risdon Limited by the Company:

- (i) all the issued shares in Risdon Limited, a wholly-owned subsidiary of the Company, together with the shareholder's loan due from Risdon Limited; and
- (ii) the entire equity interest of Risdon Limited in 昆明海逸酒店有限公司 (the "Hotel Company") a wholly-owned subsidiary of the Company.

Contingent Liabilities

At 30 September 2003, the Group's did not have any contingent liabilities.