

Management Statement

The Board of Directors (the “Board”) of Incutech Investments Limited (the “Company”) is pleased to present the audited consolidated result of the Company and its subsidiaries (the “Group”) for the financial year ended 31 December 2003.

REVIEW OF RESULTS

For the year ended 31 December 2003, the Group recorded a profit of HK\$6,574,817 and earnings per share of 10.68 cents. The Board has resolved not to pay a final dividend and propose that earnings be retained for future investment opportunities.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The first half of 2003 continued to be a period of negative economic growth and asset deflation in Hong Kong due to the war in Iraq and the outbreak of SARS. The Hang Seng Index dropped to a 5-year low in April 2003. Hong Kong’s economy improved during the second half of 2003 due partly to relaxation of China’s travel restrictions. This has benefited industries such as tourism and retailing, and helped to alleviate unemployment. The GDP increased 3.3% in real terms during the latter half of 2003.

During the year under review, whilst adopting a cautious approach, the Group has continued to capitalize upon opportunities to build up a robust investment portfolio for long-term strategic purposes and generating regular dividend return in future years and divested itself of certain shareholdings which were not in line with this investment vision.

For the year ended 31 December 2003, the Group recorded total revenue of HK\$12,022,389, a nearly 550% increase over 2002. The major source of income of the Group comprised a gain of HK\$10,545,288 on divestment of investments. The remaining income was from interest and dividends. After taking into account an unrealised loss on listed investments of HK\$115,275 and deduction of interest expenses of HK\$630,463, taxation charges of HK\$1,720,233 and operating expenses of HK\$2,981,601, profit attributable to shareholders amounted to HK\$6,574,817 which is 104 times that of 2002. As at 31 December 2003, shareholders’ funds were HK\$74,678,018. Net asset value per share was HK\$1.04.

During the year, the Group disposed of its entire interests in two subsidiaries, Star Track International Limited and Bright Cedar Limited, and assigned its interests in receivables for a total consideration of HK\$30,742,135. The Group also realized its investment in a Chinese medical health care centre in the People’s Republic of China (“PRC”) for a consideration of HK\$3,100,000. The Board believes that these divestments are in the best interest of the Group and its shareholders. Further, the short-term debt securities in the aggregate amount of HK\$10,000,000 to a private company in Hong Kong for investment purpose have been repaid in full in August 2003 in accordance with the terms of the relevant agreement. Proceeds from the realization of investments and repayment of loans have been applied for capturing better investment opportunities.

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During the year, the Group continued to rationalize its investment portfolio so as to enhance management efficiency.

Hover Technologies Limited (“Hover”) was established as a wholly owned subsidiary to hold minority stakes of unlisted companies with sound business fundamentals, growth potential and strong management for long-term strategic purposes to maintain good relationship with business counter-parts and achieve recurring dividend incomes in future years. The investee companies are engaged in businesses such as distribution of consumer and commodity products in Asia, and investment with participation in and access to high-end consumer products distribution network and public facilities in Greater China. As at 31 December 2003, the Group held through Hover long-term unlisted investments, valued at cost, of over HK\$51,500,000 (2002: HK\$3,100,000).

During the year, the Group increased its investments in listed securities which could be benefited in terms of savings in operating costs and greater exposure to business opportunities with the signing of the Closer Economic Partnership Arrangement. As at 31 December 2003, the Group held listed investments, at market value, of approximately HK\$41,300,000 (2002: approximately HK\$15,800,000).

FINANCIAL REVIEW

Liquidity and Financial Resources

During the year, the Group cautiously enhanced its leverage to support its other investments portfolio and long-term investment holdings which has increased by about HK\$25,500,000 and HK\$38,000,000 respectively. As at 31 December 2003, the Group’s gearing ratio (measured as total interest bearing debt to shareholders’ funds) is a healthy 21.6% (2002: Nil). Net proceeds of approximately HK\$13,000,000 received from the share placement in November 2003 have been fully utilized for investment in unlisted securities with earnings growth and capital appreciation, and listed securities which are consistent with the Company’s announcement dated 31 October 2003. With cash and current assets of approximately HK\$41,500,000 as at 31 December 2003, the Group has sufficient financial resources to satisfy its commitments and working capital requirements.

Capital Structure

In 2003, the Group raised net proceeds of approximately HK\$13,000,000 by issuing 12,000,000 new shares to independent investors at HK\$1.10 per share. As at 31 December 2003, the number of shares in issue was 72,000,000 (2002: 60,000,000). The net asset value of the Group is nearly HK\$75,000,000, an increase of 36% from the prior period.

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EMPLOYMENT AND REMUNERATION POLICIES

During the year ended 31 December 2003, the Group had two full-time employees and the employees' remuneration package includes fixed salary, medical insurance and mandatory provident fund. The Group's directors are not entitled to this package. The Group does not adopt any share option scheme.

DETAILS OF CHARGES ON GROUP ASSETS

The Group's other investments in listed securities are pledged against credit facilities provided by a bank and brokerage companies.

FUTURE PROSPECTS

With the implementation of the Mainland and Hong Kong Closer Economic Partnership Arrangement and the development of personal Renminbi business by local banks in early 2004, the first quarter of 2004 has seen a return of optimism to the local economy. There are also encouraging signs of global economic recovery. Such significant improvement in the investment climate looks to set Hong Kong's economy for continuing strong growth during the remainder of 2004. The Group is positive on its business opportunities for the coming year, and will continue to closely monitor its existing investments and concentrate on making strategic investments to expand our business with diligence and prudence for the benefit of our stakeholders.

EXPOSURES TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Group's assets and liabilities are denominated in Hong Kong Dollars and, therefore, the Group has no significant exposure to foreign exchange fluctuation.

Choi Wai Yin

Executive Director

Hong Kong, 21 April 2004