

MANAGEMENT'S DISCUSSION AND ANALYSIS

A management's discussion and analysis of the financial results and operations relating to the Group's businesses of building materials, securities trading and gas operations for the year ended March 31, 2004 prior to completion of the transfer of property interests from PCCW to the Company on May 10, 2004 follows below:

REVIEW OF FINANCIAL RESULTS AND OPERATIONS

The Group has a consolidated turnover of approximately HK\$149.2 million for the year ended March 31, 2004, representing an increase of 9.6 percent compared with a consolidated turnover of approximately HK\$136.2 million for the year ended March 31, 2003. The increment in the Group's consolidated turnover was mainly due to the Group's best and decent efforts in monitoring the performance in the trading of building materials business. Such business in the United States continued to progress well. Sales in the market in the United States grew significantly by 17.2 percent from approximately HK\$49.9 million the previous year to approximately HK\$58.5 million for the current year. The Group has also taken an active role in exploring new markets. For the current year, the Group has successfully expanded into the market in Australia, which has contributed approximately HK\$2.5 million to the Group's total sales.

In order to capture opportunities emerging from the energy-related sector in mainland China, the Group entered into a conditional acquisition agreement for certain interests in Beijing Continental Gas Co. Ltd. ("Beijing Continental Gas"). The transaction was completed on July 30, 2003 and the details of which are set out in the section headed "Material Acquisitions and Disposal".

During the year, the natural gas business has made a contribution to the Group's consolidated turnover of approximately HK\$3.6 million.

The Group's gross profit margin has shown a significant improvement, which has increased from 6.7 percent last year to 15.4 percent for the current year. This is a result of the Group's implementation of cost control measures to enhance operational efficiency so as to maintain its competitiveness in the respective markets of its various businesses.

The Group recorded a consolidated net loss of approximately HK\$142.4 million for the year ended March 31, 2004, a deterioration of 25.8 percent compared with the Group's consolidated net loss of approximately HK\$113.2 million for the year ended March 31, 2003. The loss from operations increased by approximately HK\$51.5 million. This was mainly due to the loss of approximately HK\$45.8 million on the trading of securities and financial

instruments, an increase in allowance for bad and doubtful debts of approximately HK\$17.4 million and an allowance for loans receivable of approximately HK\$31.0 million. For the current year, the Group has also written back the provision of HK\$23.4 million made in prior year for an onerous contract.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

As at March 31, 2004, total borrowings of the Group amounted to approximately HK\$237.1 million, representing an increase of HK\$10.8 million compared with total borrowings of HK\$226.3 million as at March 31, 2003. All these borrowings are repayable within one year of which approximately HK\$92.3 million carried a fixed interest rate of 9.8 percent per annum and approximately HK\$144.8 million carried floating interest rates.

Gearing ratio – which is expressed as a ratio of total liabilities and minority interests to shareholders' funds – was approximately 11.2 as at March 31, 2004, representing an increase of 348 percent compared with a gearing ratio of 2.5 as at March 31, 2003.

Most of the Group's business transactions, assets and liabilities were denominated in Hong Kong dollars and Renminbi.

Borrowings were denominated mainly in Renminbi, US dollars and Hong Kong dollars. Cash and cash equivalents were held mainly in Hong Kong dollars. Given the exchange rates of these currencies were fairly stable, the Group has not adopted any material hedging measures because exchange-rate fluctuations had no significant impact on the Group during the year under review.

MATERIAL ACQUISITIONS AND DISPOSAL

Acquisition of Beijing Continental Gas

As disclosed in the announcement and circular dated June 5, 2003 and June 26, 2003 respectively, Dong Fang Gas (China) Limited, an indirect wholly-owned subsidiary of the Company, entered into a conditional agreement dated June 1, 2003 for the acquisition of 73 percent of the entire issued share capital of Top Power Holdings Limited, which in turn, owns 70 percent equity interest in Beijing Continental Gas, at a consideration of HK\$80.0 million. The transaction was completed on July 30, 2003. The Group holds 51.1 percent of attributable interest in Beijing Continental Gas which has been engaged in the business of natural gas supply, storage and related services.

Acquisition of Nanning City Gas Co. Ltd. ("Nanning City Gas")

As disclosed in the Company's announcement and circular dated

November 13, 2002 and December 4, 2002 respectively, China Crystal Investment Ltd. ("China Crystal"), an indirect wholly-owned subsidiary of the Company, entered into an agreement ("Nanning Acquisition Agreement") on November 8, 2002 to acquire 30.87 percent of attributable interest in Nanning City Gas ("Nanning Acquisition").

The Company further announced on January 2, 2003 that certain disputes have existed between the vendor and China Crystal relating to the satisfaction of the conditions of the Nanning Acquisition Agreement. Not all of the conditions were satisfied and accordingly the Nanning Acquisition has not taken place. Under the terms of the Nanning Acquisition Agreement, if any of the conditions are not fulfilled (or waived by China Crystal) on or before December 31, 2002, the rights and obligations of the parties to the Nanning Acquisition Agreement shall lapse and be of no further effect.

On January 19, 2004, China Crystal entered into an agreement with an independent third party (the "third party") whereby, with the consent of the vendor, the third party agreed to acquire and China Crystal agreed to transfer the right to claim against the vendor for the refund of the deposit of HK\$10.0 million in full under the terms of the Nanning Acquisition Agreement at the consideration of HK\$7.0 million. China Crystal has received HK\$7.0 million from the third party and thereby

could avoid all costs, expenses and uncertainties to be incurred in any legal proceedings against the vendor.

Disposal of Skynet (International Group) Holdings Limited

As disclosed in the annual report of the Company for the year ended March 31, 2003, BCD (Holdings) Limited (now known as Mandarin Technology (Holdings) Limited) ("Newco"), Skynet (International Group) Holdings Limited ("Skynet"), in which the Group currently holds about 22.6 percent, and Monetary Success Investments Limited ("Subscriber") entered into a conditional subscription agreement dated March 5, 2003 ("Subscription Agreement") whereby the parties thereto agreed to the implementation of a scheme of arrangement ("Scheme"), under section 99 of the Companies Act 1981 of Bermuda, between Skynet and its shareholders. The Subscriber agreed, among other things, to subscribe for and acquire a total of 4,000,000,000 shares in the capital of Newco ("Newco Shares") or such number of Newco Shares as shall represent not less than 97 percent of the enlarged issued share capital of Newco (after taking into account the number of Newco Shares to be issued and allotted to shareholders of Skynet pursuant to the Scheme, and the Newco Shares to be issued and allotted to the Subscriber pursuant to the Subscription Agreement (but before conversion of certain convertible loan notes to be issued by Newco) upon completion of, inter alia, the Scheme and the subscription).

MANAGEMENT'S DISCUSSION AND ANALYSIS

Supplemental agreements were entered into between parties involved in the Subscription Agreement for extension of the long stop date of the conditions of the Subscription Agreement from June 30, 2003 to September 22, 2003, then eventually to December 31, 2003. The Subscription Agreement has lapsed.

In the joint announcement ("Skynet Announcement") made by Skynet, Paul Y. - ITC Construction Holdings Limited ("Paul Y") and ITC Corporation Limited dated June 4, 2004, it was disclosed that Skynet would be involved in a conditional restructuring proposal ("Restructuring Proposal") involving a capital reorganization ("Capital Reorganization"), an open offer ("Open Offer") of Skynet's shares to its qualifying shareholders (including the Group), a conditional acquisition by Skynet of certain companies to be satisfied by Skynet issuing to Paul Y its new shares after the Capital Reorganization becoming effective ("Skynet Consolidated Shares"), and the issue of a convertible note ("Note") by Skynet entitling the holder to convert the principal amount into Skynet Consolidated Shares. The Skynet Announcement also stated that the Company's shareholding interest in Skynet will be approximately 0.7 percent upon completion of the Restructuring Proposal (assuming the Group does not take up its entitlement under the Open Offer and no other changes in the shareholding structure of Skynet since the date of the Skynet Announcement), but before the conversion of the Note.

PLEDGE OF ASSETS

As at March 31, 2004, the Group had pledged certain property, plant and equipment with an aggregate carrying value of approximately HK\$83.2 million (March 31, 2003: HK\$96.7 million) and bank deposits of approximately HK\$27.3 million (March 31, 2003: HK\$26.6 million) to secure banking and other borrowing facilities granted to the Group.

The Group also pledged certain trade receivables with an aggregate carrying value of approximately HK\$13.3 million (March 31, 2003: HK\$14.3 million) to secure banking facilities granted to the Group. Besides, certain investments in securities of the Group with a market value of approximately HK\$10.2 million (March 31, 2003: HK\$16.5 million) which were pledged to secure margin loan payable included in other payable and accruals were used to set off the amount of margin loan payable of approximately HK\$15.9 million (March 31, 2003: HK\$21.5 million).

As at March 31, 2003, the Group also pledged property held for sale with a carrying value of HK\$6.5 million to secure bank and other banking facilities granted to the Group.

CONTINGENT LIABILITIES

As at March 31, 2004, the Group had not granted corporate guarantees to any parties. As at March 31, 2003, the Group's contingent liabilities were approximately HK\$10.3 million, representing a corporate guarantee

given to bankers in respect of banking facilities utilized by an associate of the Group.

EMPLOYEES AND REMUNERATION POLICIES

As at March 31, 2004, the Group employed approximately 400 staff. The Group's remuneration policies are in line with prevailing industry practices, are formulated on the basis of performance and experience and will be reviewed regularly. The Group also provided employees with comprehensive benefits including medical insurance and training programs.

The share option scheme of the Company adopted pursuant to a resolution passed on October 13, 1998 and becoming effective on December 24, 1999 was terminated on March 17, 2003 and replaced by a new share option scheme being approved and adopted on the same date. The new share option scheme is valid and effective for a period of ten years from the date of adoption. 