

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

The Group's audited consolidated profit after tax for the year ended 31 March 2004 amounted to approximately HK\$5.5 million (2003: loss of HK\$71.22 million). Earning per Share for the year was 0.52 cents as compared with a loss per Share for the previous year of 6.71 cents.

DIVIDEND

The Directors do not recommend the payment of any dividend for the year ended 31 March 2004.

BUSINESS REVIEW

Hotel operations

The accounts of the year under review reflected the performance of the Harbour Plaza Kunming (the "Hotel") for the whole financial year. During the year, the Hotel's turnover accounted for about 28% of the Group's total turnover. Despite having been seriously affected by the SARS crisis since early March 2003, the performance of the Hotel had returned to normal from the second half of the year 2003. 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 and the rate was maintained at the range of about 55% to 80% during the period from August 2003 to March 2004. Faced with a down-turn in the leisure market from February to April 2004 due to the local government's minimum protection rate policy and "Bird's Flu" influence, the Hotel has to rely on corporate accounts and events organizations. The Hotel shall continue to face keen competition in particular with the re-opening of a local 5-star hotel in February 2004. However, Kunming city as the center of corporate activities in Yunnan province for business meeting will serve to contribute the overall performance of the Hotel.

Electronic materials

During the year, Goldwiz Huarui (HK) Limited ("GHHK") contributed about 27% of the Group's total turnover (2003:33%). The sales turnover of GHHK increased to HK\$48.84 million (2003: HK\$8.94 million) as a result of a surge in demand for electronic products related materials and due to a wider distribution channels and the increased selling price.

Hi-tech electronic products

In May 2003, the Group completed further acquisition of the remaining 77% equity interest in Smart Idea Enterprises Limited ("Smart Idea"), including the shareholders' loan of approximately HK\$7.7 million due by Smart Idea, from two independent third parties at a total consideration of HK\$10 million which was determined by reference to the consolidated net asset value of Smart Idea as at 31 March 2003. Upon completion, Smart Idea and its subsidiaries, namely 科維電氣(深圳)有限公司("GE Shenzhen") and Goldwiz Electric Trading Limited ("GE Trading"), became the wholly-owned subsidiaries of the Company and their results were consolidated by the Company. GE Shenzhen is engaged in the research, development and distribution of hi-tech electronic products whilst GE Trading is the trading arm of GE Shenzhen. During the year, the turnover of GE Shenzhen and GE Trading accounted for about 45% of the Group's total turnover.

To cater for its future expansion especially on research and development for new products, GE Shenzhen has increased its registered capital from HK\$10 million to HK\$100 million during the year and that Smart Idea has further injected capital of HK\$70 million into GE Shenzhen reaching its total paid-up capital as HK\$80 million. Despite the fact that the right of GE Trading in using and distributing mobile phones under the brandname of "Capitel/首信" has been cancelled by mutual agreement, GE Shenzhen has managed to cooperate with other companies for the research and development of mobile phone software and the subsequent distribution of the products to the PRC and Korea markets.

Property investment/development

The relevant approval and registration procedures of the Company's joint-venture investment in the Shanghai property development have been completed during the year. The development building which is located in Chang Shou Lu of Shanghai was renamed as "科維大廈" since November 2003. Construction work on the development building, comprising total construction area of about 72,500m², is still under progress and expected to be completed at the end of year 2005 or the beginning of year 2006.

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Associated companies

Tongling Huarui

In September 2003, a subsidiary of the Company signed a conditional sale and purchase agreement with two independent parties for further acquisition of 47% interest in 銅陵華瑞電子材料有限公司 (“Tongling Huarui”) through the acquisition of 100% equity interest in two BVI companies, namely Best News International Limited and Pencester Limited (collectively the “BVI Companies”), at a total consideration of about HK\$19.76 million payable in cash. On 24 March 2004, the Company paid 30% of the consideration to the vendors upon receipt of a legal opinion regarding the legal status of the BVI Companies in Tongling Huarui. As ownership registration of the BVI Companies in Tongling Huarui has not yet been completed, the management has agreed with the auditors to treat such payment as deposit for the acquisition of subsidiaries. For the 12-month ended 31 December 2003, Tongling Huarui recorded an audited net profit of approximately RMB5.57 million (equivalent to HK\$5.25 million) and the profit shared by the Company during the year amounted to approximately HK\$1.40 million.

Techwayson

In February 2004, the Company has further acquired 10% equity interest in Techwayson Holdings Limited (“Techwayson”) from Otto Link Technology Limited, a company which is owned as to 80% and 20% by Mr. Sze Kwan and Mr. Tung Fai respectively, at a total consideration of HK\$21.7 million which was financed by the shareholder's loan advanced by the major shareholder of the Company. The Company now owns 27.66% interest in Techwayson, which is considered as an associate of the Company. For the nine months ended 31 March 2004, Techwayson group has recorded a turnover of approximately RMB295 million (HK\$278 million), representing a 177.3% increase as compared to the same period of year 2003. The substantial increase in turnover is due to the contribution from (i) distribution of automation products from international manufacturers such as Rockwell and Siemens; and (ii) OEM business with contracts value of approximately USD19.3

million (approximately HK\$150 million) for the provision of advanced train control system and video control card on monitor and control system. During the year, the profit shared by the Company from the results of Techwayson was approximately HK\$1.31 million.

OUTLOOK

The Group maintains its business focus in the electronic field, which covers basic electronic materials, industrial electronics and consumer electronics, while placing strategic investments in hotel and real estate. Currently, the China's economy is under tight supervision by the central government to curb the overheated economy to contain the risk of inflationary spiral. However, in the long run the Group will probably benefit as the market returns to normalcy and conditions are more stable.

Copper clad laminate (CCL), which Tongling Huarui manufactures and trades, is the fundamental electronic materials and the upstream product of printed circuit board (PCB). The advancement of technology places high demand for various electronic products, instruments and equipments, all of which are built upon PCB. Recent price surge of CCL reflects the demand. The management of the Group is optimistic about the trend in CCL industry in general and the Group's market share in particular.

Industry automation controller is another growing market in China. Although the market is dominated by major international players, Techwayson is gradually gaining a market share. In Programmable Logistic Controller sector, Techwayson's own products are gaining recognition among certain customers due to both pricing advantage and technical support.

In consumer electronics market, the Group will stay to its focus in mobile telecommunication terminal and multimedia development. With its research and development, the Group will continue its efforts to launch new products and solutions to its business partners.

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The recent "9+2" Pan Pearl River Delta economic corporation among nine southern provinces, Macao and Hong Kong will certainly benefit several pillar industries in the region, including tobacco, drug and pharmaceuticals, mining, tourism and hospitality, as well as high-tech industry. However, the management is cautiously optimistic of its lines of business in the coming year in view of the controlled measures implemented by the central government to curb over-heated economy.

FINANCIAL REVIEW

Liquidity and financial resources

At 31 March 2004, the cash and cash equivalent of the Group was HK\$79.67 million (31/3/2003: HK\$16.54 million). The increase was mainly due to the income generated from the operation of the Harbour Plaza Kunming and the business of electronic products sector which performances were consolidated by the Company during the year.

During the period, Open Mission Assets Limited continued to give financial support to the Group by granting shareholder's loan, which is unsecured and without any fixed repayment term, and by waiving the interest incurred for the year. As at 31 March 2004, the amount due to Open Mission by the Group was about HK\$126.32 million (31/3/2003: HK\$11.05 million) and the amount of interest waived was HK\$1.24 million (2003: HK\$3.28 million).

At 31 March 2004, the Group's gearing ratio was 196% (31/3/2003: 135%) which is calculated based on the Group's total liabilities of HK\$501.39 million (31/3/2003: HK\$340.12 million) and the shareholders' fund of HK\$255.98 million (31/3/2003: HK\$251.09 million).

As at 31 March 2004, the Group's current assets and current liabilities were approximately HK\$240.33 million and HK\$374.98 million respectively. The current ratio, based on the percentage of current assets over current liabilities was 0.64:1 (31/3/2003: 0.23:1). With the financial support from the major shareholder and the improved business performance of the Group, the Directors believe that the Group is able to meet its normal business requirement.

During the year, a subsidiary of the Company was granted a one-year banking loan of RMB100 million (equivalent to HK\$94 million). The loan bears interest at 5.841% per annum and was guaranteed by the Company and a fellow subsidiary of the borrower.

In February 2004, another subsidiary of the Company was granted banking facilities of up to US\$2.5 million (equivalent to HK\$19.5 million) as secured by a corporate guarantee given by the Company and a cash deposit of not less than 30% of the letter of credit amount to be utilized. No amount was drawn down by that subsidiary during the year.

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 31 March 2004, 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 Harbour Plaza Kunming Co. Ltd., a wholly-owned subsidiary of the Company.

Contingent liabilities

As at 31 March 2004, the Company had contingent liabilities amounting to HK\$94 million (2003: Nil) due to the provision of corporate guarantee on the bank loan granted to a subsidiary.

EMPLOYEES

As of 31 March 2004, the Group employed about 547 employees, of which 440 are the employees of the Harbour Plaza Kunming under the management of Harbour Plaza Hotel Management Limited. The employees of that 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 reviewed 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. The Group does not have any share option scheme.