

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

The Group's unaudited consolidated profit attributable to shareholders for the six-month ended 30 September 2004 amounted to approximately HK\$11.98 million (2003: loss of HK\$8.74 million). Profit per share for the period was 1.13 cents as compared with loss per share of 0.82 cents of the preceding year. The unaudited consolidated turnover has increased by 180.9% to approximately HK\$140 million as compared with the same period of the preceding year.

Business Review

Hotel operation

Turnover of Harbour Plaza Kunming during the period has increased by about 26.2% to approximately RMB27.90 million (HK\$26.23 million) as compared with the corresponding period of the preceding year due to the full recovery since second quarter of 2003 from the outbreak of Severe Acute Respiratory Syndrome. The hotel will continue to focus corporate segment as its top revenue position and it continues to remain the strongest in the local market among all competitor hotels. With the automatic renewal of the relevant management contract, the hotel is still managed by Harbour Plaza Hotel Management Limited.

Electronic materials

During the period, trading of electronic materials contributed about 30.1% of the Group's total turnover (2003: 58.4%). The performance of this segment showed improvement, in particular in China and Hong Kong markets, recording total sales turnover of HK\$42.03 million (2003: HK\$29.02 million) due to the rising demand on electronic products related materials and wider distribution channels as well as increased selling price.

Hi-tech electronic products

Since the completion of the 100% acquisition in Smart Idea Enterprises Limited and its subsidiaries in May 2003, the Group's performance has been greatly improved enabling the Group to turn around. During the period under review, the turnover of the hi-tech electronic products business contributed about 51.7% (2003: nil) of the Group's total turnover. The business involved trading of mobile phone's motherboard and the provision of technical services on mobile phone solutions.

Property investment/development

The construction on main-structure of the 37-storey development building has been completed in early December 2004. Pre-sale activities for 9th to 37th floor have been started since end October 2004 and more than 50% of the pre-saleable units were sold. Application for pre-sale permit in respect of the units on 8th floor and below is under processing.

Associated companies

Techwayson Holdings Limited ("Techwayson")

For its financial year ended 30 June 2004, Techwayson has recorded an audited consolidated turnover of approximately RMB359.17 million (HK\$337.6 million) representing an increase of about 121.9% as compared with the corresponding period of the preceding year. The audited consolidated profit attributable to shareholders amounted to approximately RMB10.92 million (HK\$10.26 million) as compared with net profit of approximately RMB9.62 million (HK\$9.04 million) of the same period last year. Techwayson shall continue to intensify its effort on product sales and channel establishment with its co-operation partners.

Tongling Huarui Electronic Materials Co. Ltd. ("Tongling Huarui")

For the nine months ended 30 September 2004, Tongling Huarui recorded an unaudited net profit of approximately RMB5.71 million (HK\$5.37 million) representing an increase of 90% as compared with the corresponding period of the preceding year. With the accelerated global demand in electronic materials, the order book for laminates exceeded the production capacity of the company leading to an up-trend for the selling prices and profitability.

Financial Review

Liquidity and financial resources

At 30 September 2004, the Group had cash balance of HK\$38.71 million (31/3/2004: HK\$79.67 million). The gearing of the Group was 209.3% (31/3/2004: 195.8%) which was calculated based on the total liabilities over shareholders' fund. At 30 September 2004, the current rate of the Group was 0.75, as compared with 0.64 as at 31 March 2004.

At 30 September 2004, the total borrowings of the Group were approximately HK\$162.20 million (31/3/2004: HK\$94 million). The borrowings consist of one-year term loans of RMB150 million (HK\$141 million) (31/3/2004: HK\$94 million) and a six-month term loan of HK\$21.20 million (31/3/2004: nil). All of the borrowings are secured by corporate guarantee given by the Company and some of them are also secured by share mortgage over certain equity interest of the Company and by first floating charges over the assets of the Company and the borrower. The loans were primarily borrowed to finance the operation of the hi-tech electronic business and the general working capital of the Group.

At 30 September 2004, the current liabilities of the Group included the last two instalments for a total sum of HK\$77.5 million in respect of the secured promissory note and the principal amount of HK\$155 million in respect of the secured convertible note. Details of these liabilities were set out in notes 19 and 20 to these financial statements.

During the period, Open Mission Assets Limited, the major shareholder of the Company, continued to give financial support to the Group by waiving the interest incurred by the Company during the year. With the continuous financial support from the Company's major shareholder and the adoption of prudent policies, the management believes that the Group shall be able to meet its working capital.

Charge on assets

At 30 September 2004, the entire equity interests of the Group in Risdon Limited (together with the shareholder's loan due from Risdon Limited) and Harbour Plaza Kunming Co. Ltd., the wholly-owned subsidiary of Risdon Limited, were pledged to secure against the Company's obligations under the non-transferable promissory note dated 24 July 2002 and the convertible note dated 8 November 2002 in relation to the acquisition of the entire equity interest in Risdon Limited by the Company from Hutchison Hotel Holdings (International) Limited.

During the period, a subsidiary of the Company has created a debenture incorporating the first floating charge over its undertaking, property and assets to secure its obligations under a loan agreement in respect of a six-month term loan. At the same time, the Company has also created a debenture incorporating the first floating charge over the undertaking, property and assets of the Company and a share mortgage over its equity interest in that subsidiary to secure its obligations as the guarantor for the said loan.

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.

Contingent Liabilities

As at 30 September 2004, the Company had contingent liabilities amounting to HK\$164.72 million (31/3/2004: HK\$94 million) due to the provision of corporate guarantee in connection with certain term-loans and banking facilities granted to its subsidiaries.

Prospects

During the period under review, the China government continued to exercise its regulatory and monetary control power to curb the risk of inflationary growth.

The mobile phone industry experienced recent fluctuation in the demand and fierce competition from both domestic players and abroad. The Group had formed strategic alliance with business partners and focused on business operation along certain links of the industry value-chain. The Group will place more emphasis on the research and development to launch new products and solutions to its business partners.

The grim experience of SARS, "Bird Flu", Iraqi wars and terrorist threat has affected the tourist industry but the situation has been recovering. The local government has made long-term action plans such as the "New Kunming" project and ASEAN free trade zone to accelerate the city's economy and further development. New road, railway systems and international direct airlines access are under construction or negotiation to improve the city's infrastructure to support such plans. As more than 50% of the Hotel's geographic mix comes from the local market, the Company is optimistic about the prospect of the Hotel in this sector owing to the increasing spending power of the local people. Harbour Plaza Kunming will continue to lead the top tier with its premium service.

For the Group's investments in Techwayson and Tongling Huarui, the management of the Group is optimistic about the trend in copper clad laminate industry and the industry on automation and control system in general and believes that these investments shall sustain a reasonable return in the long run.

For the Group's investment in the property/development, the Company is confident that it will bring satisfactory return to the Group in view of the active property market in Shanghai and the good location of the building.

The Group will continue to exercise tight cost control and to maintain competitiveness. Barring unforeseen circumstances, the general outlook for the Group's business shall remain steady for the rest of the financial year.

Employees

As of 30 September 2004, the Group employed about 513 employees, of which 442 are the employees of the Harbour Plaza Kunming Co. Ltd. (the "Hotel Company") 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 review of the respective management. In addition, training and development programs 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.

INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividend for the six months ended 30 September 2004 (2003: Nil).

DIRECTORS INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2004, the interests and short positions of the Directors in the Shares or underlying Shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which were required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) to be entered into the register maintained by the Company pursuant to section 352 of the SFO; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

Name	Number of Shares Corporate Interest	Approximate Shareholding
Mr. LIU Xue Lin	Long position – 200,000,000*	18.84%
	Short position – 50,036,000*	4.71%

* The above Shares are held through Open Mission Assets Limited, which is beneficially owned by Mr. LIU Xue Lin.