



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL

Net assets increased by HK\$6.4 million to HK\$76.6 million as at 31 March 2005 from HK\$70.2 million last year. During the year under review, the Group recorded a profit from operations of HK\$5.9 million compared with a loss of HK\$37.7 million last year.

Net profit attributable to shareholders for the year under review was HK\$4.2 million compared with HK\$448.9 million last year. The decrease was primarily due to the significant gain on financial restructuring of HK\$518.7 million last year. Earnings per share achieved HK0.81 cents compared with a loss per share of HK30 cents last year after excluding the gain on financial restructuring.

OPERATIONAL

a. Hotel

In July 2004, the Group selected Sunshine Group through public bidding as the operator to manage the daily operation of Xiamen South East Asia Hotel ("the Hotel") for 10 years commencing from 1 July 2004. The Sunshine Group, a seasoned hotel operator, has revamped the operation of the Hotel. In addition, we have resolved major problems of the Hotel by way of debt restructuring and improving the operational performance of the Hotel. This strengthens the Hotel's foundation for growth and the Hotel is expected to become a stable source of income to the Group in the future.

In May 2005, the Group entered into an agreement with 廈門鐵路開發公司, the joint venture partner of the Hotel, to extend the operating period of the Hotel by 10 years to 31 December 2025. This enables the Group to enjoy a stable income for the next 20 years.

b. Properties

The occupancy rate for the properties of the Group maintained at over 90% during the last two years.

c. Piano Manufacturing

The Group entered into the piano manufacturing sector by acquiring a 25% equity interest of Harmony Piano in November 2004. This business interest is expected to contribute a reasonable profit to the Group for the coming years.

d. Management Agreements

The Group has provided management services to Harmony Piano and Huamin Tourism for 18 months effective 11 November 2004, according to the management service agreement entered into with FIDC on the same date. It contributed more than HK\$3 million in profit to the Group for the contractual period.

FUTURE DEVELOPMENT

The Group is looking for business opportunities for future development especially in the manufacturing sector, which the Directors consider would experience a steady growth with an aim that the Group may place less reliance on the real estates operations in Hong Kong and hotel operation in PRC.

LIQUIDITY AND FINANCIAL RESOURCES

The Group had total borrowings of approximately HK\$27.4 million as at 31 March 2005 (2004: HK\$30.5 million). The borrowings to be repayable within one year were approximately HK\$4.8 million (2004: HK\$6 million), and the Group's gearing ratio improved to 36% for the year under review from 43% last year, which was calculated based on interest bearing borrowings to total shareholders' funds.



MANAGEMENT DISCUSSION AND ANALYSIS - (Con't)

As at 31 March 2005, the Group had current assets of approximately HK\$22.5 million (2004: HK\$38.8 million) and current liabilities of approximately HK\$24.3 million (2004: HK\$27.8 million). The decrease in current assets is attributable to "a secured loan to a fellow subsidiary" of HK\$16.5 million which will be repaid in July 2006. The Group had total assets of approximately HK\$134.9 million and total liabilities of approximately HK\$58.3 million, representing a debt ratio (total liabilities over total assets) of 43% as at 31 March 2005 (2004: 47%).

As at 31 March 2005, the Group's borrowings were denominated in Renminbi. The Directors consider the Group has no significant exposure to foreign exchange fluctuations in view of the major source of income being denominated in Renminbi. During the year under review, the Group did not use any financial instrument for hedging purposes and the Group did not have any hedging instrument outstanding as at 31 March 2005.

CHARGE ON ASSETS

As at 31 March 2005, bank loan of HK\$24,494,333 (2004: HK\$26,359,640) was secured by the Group's 40% interests in Xiamen Plaza. Neither other properties nor any bank deposits of the Group was pledged to secure banking facilities for the Group.

HUMAN RESOURCES

As at 31 March 2005, the Group had approximately 250 employees in Hong Kong and the PRC. The remuneration package was determined with reference to their performance and the prevailing salary levels in the market. The Group also provides to employees training, mandatory provident fund schemes and medical insurance cover.

MAJOR AND CONNECTED TRANSACTIONS

- (a) On 11 November 2004, Ming Chuen Construction Company, Limited ("Ming Chuen"), a wholly owned subsidiary of the Group, entered into an acquisition agreement with Fairweal Industrial Company Limited ("Fairweal"), a wholly owned subsidiary of FIDC. Under the acquisition agreement, Ming Chuen acquired 25% equity interest in the registered capital of Harmony Piano from Fairweal at the consideration of HK\$4.85 million.
- (b) On 11 November 2004, the Group entered into a loan agreement with Brilliant Well Investment Limited ("Brilliant Well"), another wholly owned subsidiary of FIDC. Under the loan agreement, the Group provided a loan facility of HK\$16.5 million to Brilliant Well, which was used to provide working capital to Harmony Piano. The term for the Loan Agreement was 18 months commencing from the drawn down date, which was 3 February 2005.
- (c) On 11 November 2004, the Group entered into a management service agreement with FIDC and Brilliant Well. Under the management service agreement, the Group was appointed by FIDC as an agent to assist FIDC to participate in the management of Harmony Piano and Huamin Tourism.
- (d) On 9 May 2005, the Group entered into an extension agreement with 廈門鐵路開發公司, the joint venture partner of the Hotel, to extend the operating period of the Hotel by 10 years to 31 December 2025.