

## **Management Discussion and Analysis**

### **RESULTS**

The financial year ended 31 March 2003 was a very difficult year for the Group. For the year ended 31 March 2003, the Group recorded a net loss of HK\$191.6 million. Net loss attributable to shareholders is HK\$155.5 million which represents a loss of HK\$48.39 cents per share.

### **FINANCIAL REVIEW**

#### **Financial information**

As at 31 March 2003, the Group had a net bank and cash balance of HK\$1.8 million (2002: HK\$2.0 million). The net current liabilities for the Group was HK\$78.4 million (2002: net current assets of HK\$83.5 million)

#### **Interest Rate and Currency Exposure**

As a significant portion of the Group's transactions was denominated in either Hong Kong dollars or Renminbi, the directors considered the Group had no significant exposure to foreign exchange fluctuations in view of the stability of the exchange rates of Hong Kong dollars and Renminbi. During the year under review, the Group did not use any hedging instrument.

#### **Use of proceeds from private placements**

On 11 December 2002, the Company issued 55,000,000 new shares of the Company to Cheng Chak Wai Allen, an independent third party, at a price of HK\$0.10 per share.

The placements enlarged the capital base of the Company and has strengthened the financial position of the Company. The total new proceeds from the placements were approximately HK\$5.5 million and were used as general working capital of the Group.

## **Charges on Assets**

As at 31 March 2003, there is no charge on Group assets.

## **Contingent liabilities**

The Group did not have any significant contingent liabilities as at 31 March 2003.

## **AUDITOR'S DISCLAIMER OPINION ON THE COMPANY'S FINANCIAL STATEMENTS**

The Company's auditor formed a disclaimer opinion on the Company's financial statements for the year ended 31 March 2003. The qualifications are set out in the report of the auditors on page [ 23 ] to [ 26 ] of this Annual Report. The Company's management would like to explain some of the causes of these qualifications according to their numbering:

- (1) The Company's auditor for the year ended 31 March 2002 was Messrs. Charles Chan, Ip & Fung C.P.A. Ltd. Due to disagreement in audit fee for 2003, the management appointed Messrs. Wong Lam Leung & Kwok C.P.A. Ltd. to be the Company's auditors for the year ended 31 March 2003. The auditors' workings for the year ended 31 March 2002 were not available for review due to the practice of Messrs. Charles Chan, Ip & Fung C.P.A. Ltd. The Company was managed under the current management since July 2002 and by then discovered that most of the Company's books and records were lost and not properly recorded. In such circumstances, there is insufficient information covering the financial period ended 31 March 2002 for the current auditors to review.
- (2) The acquisition of 51% interest in "順德正野電器有限公司" was completed in July 2002. The vendor agreed to assist the submission of documents for the transfer of title of such interest to the relevant PRC authorities. Due to frequent changes in the responsible personnel of the vendor and the PRC authorities, the approval documents in respect of such acquisition have not yet been obtained. In light of this, the Company's management had taken over the responsibility itself and engaged its own legal staff to handle the issues in early 2004. It is expected that the approval documents will be issued shortly. As stated in the legal opinion from the PRC lawyer, the acquisition of such interest complies with the PRC laws and regulations.
- (3) (i) The inventories as at balance sheet date comprised of raw materials of HK\$1,805,000, work-in-progress of HK\$97,000 and finished goods of HK\$1,332,000.

The management has already restructured the accounting department in order to ensure a proper stock recording system and internal control procedures are in place.

- (ii) There were no independent confirmations from the banks in the PRC on the balances of bank deposits and bank loans. The bank advices recording the relevant balances had been received and treated as the balance of the bank deposits and bank loans as at the balance sheet date.
- (4) The management is unable to contact previous management for their confirmation of the Directors' emoluments.
- (5) It related to a saving account not found in our records and we do believe that the said account does not have any movement during the year.
- (6) There was no record under the previous management in respect of the subsidiary, Yue Hong Enterprises Limited ("Yue Hong"). It appears that Yu Hong did not carry on any business. As at the balance sheet date, it had been taken out from the Group with full provision made.
- (7) The High Court case was instituted in September 2000 by a third party as plaintiff and one of our subsidiaries as defendant in respect of outstanding mesne profits. The management is not aware of any further action being taken up to the date of this report.
- (8) In spite of repeated enquires and searches, the current management cannot find any information on the subsidiaries, Excellent State Limited and Global Mission Holdings Limited. As no records could be located in respect of these subsidiaries, the results of these subsidiaries are not included in the consolidated financial statement.
- (9) The current management stepped in the Company in July 2002 and had not engaged in the stock-take on 31 March 2002. Therefore, the management cannot verify the opening inventories as at 1 April 2002.
- (10) As explained before, most of the books and records were lost and not properly kept by the previous management. The current management had already tried to provide all information for the relevant transactions and made all disclosures at their best.

## **EMPLOYEE AND REMUNERATION POLICIES**

As at 31 March 2003, the Group has a total of 72 employees of whom 12 were based in Hong Kong whereas 50 were local staff employed in the PRC. The Group regularly reviews remuneration and benefits of employees according to the relevant market practice and individual performance of the employees. In addition to basic salary, employees are entitled to other benefits such as share option scheme, of which the Board may, at its discretion, grant options to employees of the Group. The remuneration policies of the Group's employee are subject to review regularly. Total staff costs for the year amounted to HK\$2,340,000 (2002:HK\$5,356,000)

The Group did not operate any pension or retirement schemes for its Directors or employees until implementation of MPF in December 2000. The Group has a share option scheme, which was duly approved by the shareholders on September 5, 2001, available for any fulltime employees of the Company or any of its subsidiaries, including any executive directors of the Company or of any subsidiaries. No options have been granted since the approval of the scheme.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

During the year ended 31 March 2003, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

## **AUDIT COMMITTEE**

The Company set up an audit committee (the "Committee") on 5 June 2003 which was established in accordance with the requirements of the Code of Best Practice (the "Code"), as set out in The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), with written terms of reference, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls.

The Committee comprises two independent non-executive directors of the Company. The Group's audited financial statements as at 31 March 2003 and for the year then ended have been reviewed by the Committee, who are of the opinion that such statements comply with the applicable accounting standards and the Stock Exchange's and legal requirements, and that adequate disclosures have been made.

## **COMPLIANCE WITH THE CODE OF BEST PRACTICE**

In the opinion of the directors, the Company has complied with the Code as set out in Appendix 14 of the Listing Rules, throughout the accounting period covered by the annual report, except that the independent non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation and re-election at annual general meeting of the Company in accordance with the Company's Bye-laws.

## **DIVIDEND**

The Board of Directors does not recommend any final dividend for the year ended 31 March 2003.