



# Management Discussion and Analysis

## 1. Liquidity and Financial Resources

As at 31 March 2002, the aggregate cash and bank balances of the Group amounted to HK\$4,617,000, down 55.9% from HK\$10,464,000 as at the previous balance sheet date. The decline is due to the increase in cash outflow in relation to the acquisition of two associates and ordinary operating expenses.

During the year, there was an increase in net cash inflow from financing, as the cash inflow from the issue of new shares increased from HK\$7,513,000 in last year to HK\$100,658,000 for the year ended 31 March 2002. A cash inflow of HK\$33,392,000 from the issue of warrants was recorded in the year under review, as compared with nil for the year ended 31 March 2001.

The substantial amount of net cash outflow from investing activities is largely due to the cash outflow in the form of acquisition consideration as mentioned above. A sum of HK\$18,000,000 as the refund of deposits paid for potential investments was received during the year.

A net cash inflow from operating activities of HK\$16,518,000 was recorded for the year ended 31 March 2002, as compared with a cash outflow of HK\$82,838,000 in the previous year. The improvement is the result of an increase in cash inflow from other investments, deposit and debtors.

As at 31 March 2002, the Group had total assets of HK\$371,684,000 (2001: HK\$243,443,000), including non-current assets of HK\$300,144,000 (2001: HK\$115,584,000) and current assets of HK\$71,540,000 (2001: HK\$127,859,000), being financed by shareholders' funds of HK\$345,860,000 (2001: HK\$214,018,000) and current liabilities of HK\$18,432,000 (2001: HK\$21,986,000).

## 2. Capital Structure

	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Share Capital	<b>152,154</b>	116,234
Reserves	<b>193,706</b>	97,784
Shareholders' funds	<b>345,860</b>	214,018

The Group's share capital increased from HK\$116,234,000 as at 31 March 2001 to HK\$152,154,000 as a result of a share placement and employees' exercise of share options granted under the share option scheme of the Company during the year ended 31 March 2002. In addition, the Company also allotted consideration shares as a partial consideration for the acquisition of associates made during the year.

Meanwhile, the Group's total shareholders' funds increased from HK\$214,018,000 as at 31 March 2001 to HK\$345,860,000 as at 31 March 2002. This is attributed to the share placements and issue of warrants.

### 3. Review of Operation

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Turnover by activities:		
Freight forwarding and Vessel operating common carrier services	<b>28,761</b>	80,228
Securities Trading	<b>22,380</b>	13,059
Operation of container depots and logistics management services	<b>18,165</b>	21,638
Steam coal trading	—	22,425
	<b>69,306</b>	137,350
Contribution by activities:		
Freight forwarding and Vessel operating common carrier services	<b>(9,554)</b>	(4,307)
Securities Trading	<b>(5,895)</b>	(3,327)
Operation of container depots and logistics management services	<b>(1,321)</b>	(703)
Steam coal trading	—	(745)
Strategic investment and others	<b>(5,293)</b>	(222)
	<b>(22,063)</b>	(9,304)
Net Finance Income	<b>132</b>	3,235
Share of results of associates	<b>(5,144)</b>	(1,106)
Impairment losses recognised in relation to an associate	—	(66,857)
Group overheads	<b>(28,371)</b>	(45,454)
Corporate finance overheads	<b>(4,919)</b>	(9,269)
Amortisation of goodwill	<b>(6,124)</b>	—
Allowances for loan receivable from a joint venture partner	<b>(4,065)</b>	—
Other non-operating items	<b>(225)</b>	(1,739)
Reserve realised upon expiry of warrants	<b>23,322</b>	—
(Loss) profit from ordinary activities before taxation	<b>(47,457)</b>	(130,494)

For the year ended 31 March 2002, the Group's turnover amounted to HK\$69,306,000, representing a decrease of approximately 49.5% as compared with the previous financial year. This is attributable to the downsizing and disposal of certain subsidiaries engaging in sea and air freight operations in 2001, and the discontinuation of the steam coal trading operation in 2001. Among the major business segments, freight forwarding and vessel operating common carrier services accounted for approximately HK\$28,761,000 or 41.5% of the Group's total revenue (2001: HK\$80,228,000 or 58.4%), while the operation of container depots and logistic management services accounted for approximately HK\$18,165,000 or 26.2% of the Group's total revenue (2001: HK\$21,638,000 or 15.8%).

Despite a high level of group overheads loss from operations further reduced by 8.7% to HK\$55,221,000 from HK\$60,461,000 in the previous financial year. The improvement is mainly attributable to the shrinkage in group overheads.

The Group's net loss attributable to shareholders for the year ended 31 March 2002 was HK\$47,188,000, representing a decrease of 63.8% as compared with a net loss of HK\$130,321,000 in the previous financial year. This is attributable to an one-off gain of approximately HK\$23,322,000 upon expiry of the unexercised warrants due on 31 August 2001. Loss per share was 3.8 cents, representing a decrease of 66.1% from 11.2 cents from the previous financial year.

Finance costs decreased from HK\$331,000 in the previous financial year to nil for the year ended 31 March 2002.

### **Freight Business and Vessel Operating Common Carrier**

The turnover of the freight forwarding and the vessel operating common carrier services fell further by 64.1% to HK\$28,761,000. During the same period, the business segment reported an operating loss of HK\$9,554,000, representing an increase of 121.8% from the year ended 31 March 2001.

The downturn in the vessel operating common carrier business is mainly attributed to the further contraction in demand for inbound feeder delivery to the Pearl River Delta. Since May 2001, certain imported materials have been banned by the PRC government, further intensifying the already tight competition in the region. The negative financial impact could have been worse if not arrested by the Group's changes in operation strategies by entering the market of feeder delivery services between Guangzhou and Yantian for direct shipment from mainland ports to the overseas. Besides, instead of employing self-owned vessels as in the past, the Group turned to chartering feeders with larger capacity from outside parties to minimize insurance costs and operation risks.

### **Operation of Container Depot and Logistics Management**

The turnover of the Group's container depot operation in Shanghai were disappointing fell by 16.1% from the previous financial year to HK\$18,165,000. As a result, this business segment suffered from an operating loss of HK\$1,321,000, representing an increase in operating loss as compared with the year ended 31 March 2001. The strong performance in the first half of the year failed to keep on due to the contraction in global trading activities in the second half of the year in the wake of the 911 Incident.

### **Securities Trading**

In view of the increased volatility and higher downside risks of the equity market, the Group cleared all remaining positions and yielded a trading loss of HK\$5,895,000.

## 4. Fund Raising Transactions

	<b>Net Proceeds</b> <i>HK\$million</i>
Apr 2001	
Net proceeds from the exercise of 2,147,000 share options of the Company by employees	0.6
May 2001	
Net proceeds from the exercise of 8,250,000 share options of the Company by employees	2.7
Oct 2001	
Net proceeds from the private placing of 234,000,000 units of warrants	33.3
Jan 2002	
Net proceeds from the placement of 208,800,000 shares in the Company	97.4

During the year, the Group raised fund amounting to HK\$134.0 million through the above activities.

The net proceeds from the placement of 234,000,000 units of warrants has been used as general working capital and to finance future and other strategic investments when the appropriate opportunity arises.

The net proceeds from the placement of 208,800,000 new shares has been applied in its entirety for the partial settlement of the cash portion of the consideration for the acquisition of 45 shares in the capital of Independent Islands Limited.