Management Discussion and Analysis

REVIEW OF OPERATIONS

The audited consolidated turnover of the Group was approximately HK$106,217,000 for the year ended 31 March 2002 ("Year"), a drop about 70% from last year's of approximately HK$354,444,000. The audited consolidated profit attributable to shareholders for the year ended 31 March 2002 was approximately HK$885,000, a decrease of about 98% when compared with last year's figure of about HK$47,195,000.

During the Year, the on-going deflationary adjustments of the Hong Kong economy followed by the downturn of the world economy as well as the structural change of the Hong Kong Government's housing policies, which was quite negative to the already difficult building services industry, had substantially reduced new business opportunities available to those in the industry as well as to the Group. Both engineering contracting business and trading of electrical equipment and components business had as such faced great pressure in seeking business during the Year. Due to the delay in handover of certain project sites to the Group by the main contractors and poor weather conditions prevalent during the Year, works commencement of few new projects of the Group had been delayed for several months. Meanwhile, other new lines of business such as old and aged building services maintenance and environmental engineering services business have just commenced, as a result, the Group could not escape a substantial drop in its turnover for the Year. Albeit large drop in its turnover, the Group managed to maintain a positive result for the Year, much attributable to the cost control measures adopted during the Year.

Turnover by line of business

During the Year, the Group' turnover electrical engineering contracting business and trading of electrical equipment and materials were approximately HK$65,000,000 and HK$ 41,000,000 respectively, or about 61% and 39% of the total Group turnover respectively. The turnover mix continued shifting from the former to the latter, much because of the large drop in the turnover of the former business. This further reflected the difficulties in the industry and the change of government's housing policies that affected the Group's core engineering contracting business during the Year.

Turnover by customer type

As a result of the Group's refocusing its business in the private sector, the turnover in the private sector recorded about 43% of the Group's overall turnover for the Year, whilst those from public sector was about 57%. The increase in the engineering contracting business was quite attributable to such shifting, particularly the turnover about HK$28 million solely contributed from the PSPS project at Tin Shui Wai offered by private client with contract sum of about HK$80 million. The drop in the availability in public project might be another attributable reason.

Electrical Engineering Contracting Business

During the Year, the Group continued its outstanding work in progress brought forward from last year. While most of such engineering projects were close to completion or already reached at their "Defect Liability Period", some of the new projects were delayed to commence. The limited overall volume of public projects available to tendering and price competition in the market had greatly affected the Group's opportunity in taking up new projects with reasonable returns. The volume of combined works was much reduced due to the limited number of new projects available to the Group's engineering division during the Year. Thus, when compared with works completed and certified last year, the aggregate sales in engineering contracting business were largely reduced during the Year.

During the Year, those active projects that contributed to the Group's audited engineering turnover included those certified sales from the works in the PSPS project at Tin Shui Wai - 111 Area Lot 28, Yuen Long with contract sum about HK$80 million, Tin Shui Wai Area 102 Phase 3 with contract sum about HK$66.8 million, Tin Shui Wai Area 102 Phase 2 with contract sum about HK$68.7 million, the PSPS Project at Tseung Kwan O Town Lot NO. 62 Area 65A with contact sum about HK$73.3 million, the rewiring project at Lei Cheung Uk with contract sum about HK$10.7 million, etc.

The followings highlight those certified turnover contributed by project recognized over HK$2 million for the Year under the Group's accounting policy is summarized below:—

Project located at	**Approximate Contract Sum$ (Reference)** *HK$ million*	**Approximate Certified Turnover Recongised during the Year** *HK$ million*
PSPS Project at Tseung Kwan O Town Lot NO. 62 Area 65A	73.3	3.9
PSPS project at Tin Shui Wai - 111 Area Lot 28, Yuen Long	80.0	28.1
Tin Shui Wai Area 102 Phase 3	66.8	5.1
Tin Shui Wai Area 102 Phase 2	68.7	2.4
Lei Cheung Uk Rewiring	10.7	8.9
MTR's Tseung Kwan O Extension Signaling System Installation	5.4	2.3
Sub-total		50.7
Others		14.4
Total Electrical Engineering Contracting Turnover		65.1

Other new projects commenced during the Year with contract value over HK5 million were those at Tung Chung Area 31 Phase 3 with contract sum about HK$59.5 million, at Kwai Chung Estate Phase 7 with contract sum about HK$25.8 million, at Tung Chung Area 31 Phase 5 with contract sum about HK$40.7 million, the Term Maintenance Contract (Region North 1) with contract sum about HK$50 million, the signaling system installation project at MTR Tseung Kwan O Extension with contract sum of about HK$5.4 million, the rewiring project at Mei Lam Estate with contract sum about HK$17.2 million etc. Except the first two projects, which were delayed in commencement, others were in smooth progress with completion according to schedules during the Year.

The gross margin of the electrical engineering contracting business was about 12% for the Year, a drop by 10% when compared with 22% reported last year. The decrease reflected the difficulty of the building services industry and the downward spiraling prices in tendering during the Year, despite costs control measures already applied in material prices and utilization. Another reason was that during the Year, most of the projects were newly commenced in their early stages with the result that the applications of Group's internal materials in such projects were not much, when compared to last year. Thus, different from last year, the merits of Group's continuing vertical integration process had not been fully entertained during the Year.

During the Year, the gross margin of the Group's electrical engineering contracting business was pushed down to about 12% from last year's 22%, reflecting the low atmosphere in the industry and prevalent strong tendering competition in the markets. Other contributing factors included the followings:—

(a) Comparatively less turnover contribution from those projects which approached their completion or near completion stages;

(b) Commencement of new projects with comparatively lower gross margin;

(c) Unfavourable variances in actual costs slightly over estimated costs for some projects

Given the decreased turnover for the Year and the lapse of the "Defect Liability Period" for some of the Group's old projects, the amount of retention money held by clients dropped to approximately HK$13 million (2001: HK$15 million), a favourable change by about 13%.

New Works

Despite unfavourable market conditions, the Group's engineering division had taken up a number of new projects in respect of new electrical installation, rewiring and maintenance contracts during the Year. Works on most of these new projects had already been started during the Year.

It is expected that because of price competition during tendering process, the margin of these new projects would be narrowed when compared to those of the Group's previous projects. It is anticipated that the Group's on-going internal vertical integrating process might help relieving part of those negative factors.

As mentioned in the earlier section of this Report, the Group's engineering business had been following the Group's general business direction to stride across the border from Hong Kong to the PRC. In March 2002, the Group's engineering division had successfully obtained a new electrical installation project at Dongguan, the PRC with value at approximately HK$5,100,000. Further negotiation with parties from PRC for more similar projects has now been undertaken.

As at 31 March 2002, the Group's commitments in respect of electrical engineering contracts on hand with an aggregate incomplete contract value was approximately HK$200 million, extending to November 2004. If including those contracts successfully tenders (subject to confirmation) after the Year end and up to the date of this report, the Group's commitments in incomplete contract value will increase to about HK$300 million, also extending to November 2004.

Electrical Equipment and Material Trading Business

The sluggishness of the Hong Kong economy and the poor atmosphere in the industry posed the Group's trading divisions in difficulties during the Year. As a result of the substantial reduced volume of works in the building industry, the public sector works in particular, and coupled with the decrease in the number of new projects taken up by the Group's engineering division, the Group's trading teams experienced a general shrinkage in the demand for their electrical products. In addition, those new trading lines such as lighting products had to pass some standard safety testing and to obtain governmental bodies' approval to be listed on their product lists. Sales of such lighting lines had not yet started until after the Year end. Thus, the performance of the Group's trading business, particularly the generator set division, was largely affected. The expected growth of the Group's trading business had been retarded for the first time since the financial year ended 31 March 1998. Turnover of the generator set division was decreased by about 67.8% to about HK$15,384,000 for the Year (2001: HK$47,752,000); whilst turnover of the electrical components division dropped to about HK$25,688,000 for the Year (2001: HK$31,842,000), or approximately down19.4%.

Owing to depressed economic conditions and decrease in the volume of building projects in the Hong Kong markets, the number of new trading clients was quite limited and the selling prices of some of the product lines had been dropping slightly during the Year, which had somewhat affected the Group's trading margin. Favourably, the proportion of the sales of one component product with comparative higher margin increased during the Year, balancing some of the negative effects. The gross margin of the overall trading divisions was therefore maintained at approximately the level of those of last year.

As a result of the comparatively decrease in the volume of sale of generator sets of the trading division, the product mix in the trading turnover slightly changed during the Year. The share in the trading turnover of generator set dropped to about 67.8%; HK$15,384,000; whereas the turnover of other components increased their combined share to around 54.8%.

The following is a breakdown of the Group's trading business by principal product brands for the Year, with comparative figures for the previous year:—

	% of total trading turnover	
	2002	2001
Brand		
Benedikt & Jager	**1.0%**	0.8%
Hanni	**11.9%**	13.6%
Schrack	**22.9%**	15.1%
Togami	**1.9%**	2.0%
TOYO-Branch	**0.6%**	0.4%
Vinidex	**1.2%**	0.5%
VirboPower	**37%**	59.3%
Others	**23.5%**	8.3%
Total	**100.0%**	100.0%

Same as previous year, the Group continued its delivery policy of distributing goods to its customers in that most of the goods were delivered immediately to customers' project sites once they were received from the Group's suppliers. Purchase orders were usually placed to suppliers in advance but the Group would not request suppliers' delivery unless sales to the Group's customer were confirmed. As far as possible, the Group's policy was to shift the risks of holding inventory to suppliers. Whilst there was no large change in the absolute amount of inventory, the inventory turnover rate increased from last year's 37 days to 40 days for the Year.

FINANCIAL REVIEW & ANALYSIS

Financing

New Issue of 30,000,000 shares

On 3 May 2001, the Company successfully obtained a listing of its shares in The Stock Exchange of Hong Kong Limited and simultaneously raised new capital by way of placing of 20,000,000 new shares and public offering of 10,000,000 new shares ("Share Issue"). Proceeds from the Share Issue, after expenses, amounted to approximately HK$24.2 million.

Use of Proceeds

Out of the net proceeds HK$24.2 million from the Share Issue, the Group had already utilized approximately HK$1.5 million. The following is a summary of the use of proceeds during the Year:—

Proposed Application of Proceeds as disclosed in the Company's Prospectus dated 11 April 2001	**Amount Proposed Approximate** *HK$'000*	**Amount utilized Appxomiate** *HK$'000*	**Balance Approximate** *HK$'000*
Potential investments in or acquisitions of suppliers of electrical equipment and Materials	9,000	Nil	9,000
Developing other types of building services installation	5,000	Nil	5,000
Potential tendering for electrical engineering works	5,000	Nil	5,000
Developing trading business of electrical equipment and materials in the PRC	4,000	470	3,530
Carrying out testing of various electrical equipment and materials for compliance certification from the HKHA	1,000	Nil	1,000
General working capital	1,000	1,000	Nil
Total	25,000	1,470	23,530

(Note: Final figures of the net proceeds of the Share Issue was about HK$24.2, slightly less than the initial estimate figure of about HK$25 million)

Liquidity, Financial Resources and Gearing

As at 31 March 2002, the Group has cash and cash equivalents of HK$91,872,000, an increase of HK$24,761,000 over the last year. The increase mainly comes from the placing of new share and public offering on 3 May 2001. The Directors believe that the Group has adequate fund for business operations and maintain a highly liquidity.

During the Year, the Group's financial position was very healthy, principally financed by its equity capital. As shown in the Group's consolidated balance sheet as at 31 March 2002, the consolidated shareholders' funds amounted to approximately HK$105,784,000; whereas the Group's total borrowings was about HK$6,367,000 which mainly comprised of short-term bank loans and overdraft. The bank borrowing principally comprised of loans in Hong Kong dollars on a flating rate basis.

The gearing ratio, defined as the total debts over total assets, was approximately 4% (2001: 6%). The favourable improvement in the ratio reflected the Group's increase in its equity capital and the reduction in the amount of its net borrowings at the end of the Year.

With strong working capital, the Group had only limited use of the available banking facilities offered by financial institutes during the Year. As a result, the Group financial expenses in loan and overdraft interests payment was substantially decreased to only about HK$193,000 for the Year, a drop of about 85% comparing to HK$1,296,000 for the last year.

As a result of tightening operational cashflow, manipulation of its working capital and additional cash from the Share Issue, the Group managed to accumulate comparatively high level of cash assets during the Year. Following the Group's cessation in its securities investment non-core business upon the listing of the Company's shares on the Stock Exchange, treasury management of the Group's surplus funds had been manipulated to mainly place on non-risky short-term deposits with financial institutions, albeit prevalent low interest rates. As at 31 March 2002, the Group's aggregate cash balances and fixed deposited held with financial institutions amounted to approximately HK$91,872,000. As compared to the total assets of the Group, this amount represented about 59%. Cash assets per share was about HK$0.46. The increase in the cash assets as such placed the Group in an extra strong current assets position during the Year. As at 31 March 2002, the current ratio was about 3.3 times (2001:2.8); whilst the quick ratio was 3.2 times (2001:2.7).

Towards the end of the Year., the Group had already informed its bankers to withdraw all of the old banking facilities for the purpose of negotiation of new lines. As at 31 March 2002, the Group had in principal no secured banking facilities and the financial institutions had also released the Company's corporate guarantee for the cancelled banking facilities. At the end of the Year, all the Group's assets, including those fixed deposits that previously pledge with banks, had not been secured, pledged or claimed to or by financial institutions and they were free from the Group's disposal. The available internal funding of the Group mainly comprised of cash and fixed deposits less short-term bank borrowings and overdraft, which was about HK$85,505,000 as at 31 March 2002 (2001: HK$59,695,000).

Given the reduced consolidated profits attributable to shareholders for the Year and the increase in the Group's shareholders' fund at the end of the Year, the Group's return on equity was about 0.83% for the Year (2001: 58.51%).

Foreign Exchange Management

The Group's purchases from overseas suppliers were always subject to foreign currency fluctuations. The Group monitors the risks in foreign exchange by way of placing forward foreign exchange contracts. It is basically that the Group has no change of its foreign exchange management policy since the listing of the Company's shares on the Stock Exchange. During the Year, such risks were comparatively lessoned because of the reduced overseas purchases caused by shrinkage in trading business activities during the Year. As at 31 March 2002, the Group had no outstanding forward foreign exchange contracts on hand.

Contingent Liabilities and other commitments

As at 31 March 2002, the Group had operating lease commitments of approximately HK$579,000, in which about HK$555,000 is to be payable within one year, and about HK$24,000 payable in the second to fifth year inclusive.

EMPLOYEES

As at 31 March 2002, the Group has a total number of 76 staff. Remuneration is determined by reference to their qualifications and experiences of the staff concerned. Our Group has set up a performance evaluation policy and will award those employees with outstanding performance. One early proof in the granting of stock options pursuant to the share option scheme of the Company to staff of the Group this year as the beginning of a program to attract and retain high level talents. The Group will continue to emphasize on staff training and total quality management to better prepare its staff for the upcoming changes and challenges in the market and industry.

FUTURE PROSPECTS

General

Starting the Year 2002, the world economy has shown signs of upturn from its bottom followed the "911" incident last year. Those recent releases of the economic indicators from the United States, including the latest earnings of enterprises, have been quite positive, showing signs of market recovery, increasing demand and revival of consumer confidence. Interest rates are now stabilized at the bottom. In Hong Kong, the deflationary pressures such as business streamlining, salary cut, layout, etc. continue clouding the economy and every stratum of Hong Kong. Unemployment rate has worsened to surge to its record high recently. Despite such negative factors, the property markets of Hong Kong have shown increasing activities in the first two quarters of 2002. Recently, the influx boom of the Mainland's sight-seekers to Hong Kong has been helping to some extent the already depressed local travel industry, retailing business and consumption in Hong Kong. Some local large enterprises have already prepared to expand its business through large-scale employment fairs.

To the north, the China's economy continues thriving strongly. With China's entry into the World Trade Organization last year, many overseas investors are now preparing to set up business in China, to be quartered in the Mainland's large cities such as Beijing, Shanghai, Guangchow, Shenzhen, etc. Together with the increase in local retail consumption, retailing demand and enhancement in the living standards in China, such new investments in China would as well present much business opportunities in China.

Outlook for the Industry

Given the low economic atmosphere and the present housing policy of the Hong Kong Government, the local building services industry would remain difficult in the coming year. It is expected that the volume of new works, those offered by the public sector in particular, would be quite limited and tough competition continues within the industry, which together with the shrinkage in demand, load pressure, to a certain extent, on the prices of electrical products.

Outlook for the Group

In view of the drastic decrease in the construction of public housing, the Group is expected to face undue pressure in seeking business opportunities in Hong Kong's public sector in the coming year. Despite the recent release in the resale of "Home Ownership Flats" by HKHA, the volume of new works from the public sector was quite limited. As part of its laid down diversification plans, the Group has pragmatically been refocusing it's core-business development towards cooperation with enterprises in the private sector. Potential business with property developers, utility enterprises, transports corporations, educational institutions are the Group's major targets. Meanwhile, the Group's maintenance team under its new wholly owned subsidiary, Yew Sang Hong Building Services (Maintenance) Engineering Limited, has also been active in exploiting building maintenance business in old and aged buildings. The Group has also been active in negotiating with estate management companies, incorporations of homeowners, property companies, etc, in respect of provision of electrical maintenance services to buildings as well as housing estates. It is believed that maintenance would be a stable business and provide regular stream of revenue to the Group.

As a total solution provider, the Group has been realizing its vertical integration plan with the addition to its product range the new distributorship rights of lighting products. Lighting has always been one of the most important elements in electrical systems. Despite low atmosphere in the industry, these new lighting products, originated from Italy, would be quite favourable for the Group in tendering projects offered by private enterprises such as those from utility companies, transport enterprises, university or schools, etc. While the Group continues seeking other new product lines, sale of these new lighting products has already commenced at the start of the coming financial year and the Group believes that it would, to a certain extent, enhance the Group's trading turnover. Following its diversification program, the trading division has first introduced to the Group a non-electrical product. This is a brand new distributorship right of uPVC (Unpasticised Polyvinyl Chloride) pipeline system for building drainage from Singapore, denoting the further expansion of the Group into the building system services.

The Group takes every opportunity in the light of overseas market demand for low-cost electrical industrial and domestic goods manufactured in the PRC. In this connection, the Group has set up another fully owned subsidiary company, Yew Sang Hong Trading (China) Limited, to engage in re-export business of electrical industrial and domestic goods from the PRC to overseas countries such as Australia, Italy, Japan, United Kingdom, etc. Whilst the re-export business operations have been actually commenced after the end of the Year, the Group plans to start seeking potentials in relation to co-operations in respect of manufacturing with license of its electrical product lines in the PRC.

Material Investments

In order to explore investment opportunities in the PRC for the Group with an objective to capture any business potential arising as a result of the growing economy of the PRC and to diversify the business portfolio of the Group, the Company has placed 23,800,000 new shares at a placing price of HK$5.13 per share to independent investors. The net proceeds of the placing are amounted to approximately HK$118 million of which up to approximately HK$50 million has been retained for the business operation of the joint venture company to be established in the PRC with (“深圳一輝”) and the remaining balance of approximately HK$68 million has been retained for the future operation of a new securities firm to be established by the Company in Hong Kong.

In June 2002, an indirect wholly-owned subsidiary of the Company has entered into certain agreements with Dagong International to establish Dagong Credit, a joint venture company in the PRC. It is anticipated that the Company is required to invest approximately HK$40 million on its portion, whereas the total investment for the joint venture company will be approximately HK$80 million. Dagong Credit is expected to be principally engaged in the provision of various kinds of credit information services to local and overseas institutional investors, financial institutations, regulatory authorities, government departments and economic research houses. At the date of this report, the Company and Dagong International are in the process of arranging the formation of Dagong Credit.

In July 2002, an indirect wholly-owned subsidiary of the Company also entered into a sale and purchase agreement with two indepedent third parties in relation to the acquisition of 60% of the issued share capital in Cyber Touch Limited, a holding company incorporated in the British Virgin Islands, for an aggregate consideration of HK$18 million. The principal asset of the holding company is its 100% interest in 北京易行商盟在線網絡技術有限公司, a company incorporated in the PRC in June 2000 and has been carrying the business of manufacturing and sales of computer software and network products, providing services in technology research and development, consultation, trading and transfer.