MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

For the year ended 31 March 2003 (the "Year"), the Group's audited consolidated turnover amounted to approximately HK$199,722,000, an increase of about 88.0% compared to HK$106,217,000 last year. The Group recorded an audited consolidated loss attributable to shareholders of approximately HK$40,555,000 for the Year, whereas last year there was a profit of approximately HK$885,000.

Unfavorable factors holding hostage of the local building construction industry went bizarre during the Year, causing further unruly damage. As a result of the structural change in government housing policy, public housing projects were significantly scaled down. Whilst in the private housing sector, the amount of new works also plunged due to sluggish homebuyer sentiments. These resulted in substantially less new business opportunities available to the building construction industry and the Group, which further aggravated the difficulties plaguing the sector. Moreover, due to reasons explained below, some of the Group's subsidiaries were suspended by several government bodies from tendering for electrical engineering and materials supply projects. As such, the Group during the year focused on completing the outstanding electrical engineering contracts brought forward from last year, while vigorously expanding the electrical engineering maintenance business and the electrical and component trading business that provide a steadier source of revenue.

The electrical engineering contracting and maintenance business and the electrical and component trading business improved their performance during the Year, which reflected the success of the Group's core businesses in maintaining considerable competitive advantages. The Year also saw the Group branch out for horizontal diversification, commencing new businesses that include securities trading and investment, information technology and e-commerce, and direct investment. While these new businesses are still in their initial stage of development and recorded a loss for the Year, the Group believes that they have good growth potential and would contribute to the Group's long-term prosperity.

TURNOVER BY BUSINESS SEGMENT

During the Year, the Group's electrical engineering and maintenance business generated a turnover of approximately HK$168,749,000 (2002: HK$65,145,000), and the electrical and component trading business generated a turnover of approximately HK$29,741,000 (2002: HK$41,072,000), accounting for approximately 84.5% (2002: 61.3%) and 14.9% (2002: 38.7%) of the Group's total turnover respectively. Turnover derived from the securities business and the information technology and e-commerce business amounted approximately to HK$1,036,000 (2002: nil), HK$196,000 (2002: nil) respectively, accounting for approximately 0.5% (2002: nil), 0.1% (2002: nil) of the Group's total turnover. Electrical engineering and maintenance, together with electrical and component trading, remained as the Group's core businesses, while the other businesses are still in their initial stage of development. The Group will continue to strengthen its core businesses, speed up the growth of the new businesses, and further seek for other good quality investment opportunities.

MANAGEMENT DISCUSSION AND ANALYSIS

TURNOVER BY CUSTOMER TYPE

During the Year, as a result of the Group's shifting focus towards the private sector and other businesses, approximately 47% (2002: 43%) of the Group's total turnover was derived from those sources, whereas the public sector accounted for approximately 53% (2002: 57%) of the pie. It is expected that the turnover percentage attributable to the public sector will continue to decline.

ELECTRICAL ENGINEERING AND MAINTENANCE

Yew Sang Hong Limited ("YSH"), a wholly owned subsidiary of the Company, has been suspended from tendering for electrical installation works in the projects of the Hong Kong Housing Authority ("HKHA") with effect from 23 May 2002. In light that a former director of the Company and YSH were referred to in the particulars of the charges filed by the Independent Commission Against Corruption against an officer of HKHA (the "ICAC Charges"), the Building Committee of HKHA has decided not to invite YSH to tender for any works for the HKHA. The decision does not affect existing contracts YSH has with HKHA.

The Environment, Transport and Works Bureau ("ETWB") has under its letter dated 7 March 2003 notified YSH that YSH has been mandatorily suspended from tendering public works in all categories in which YSH is listed with effect from the date of the letter. ETWB has removed YSH from all categories in the list of approved suppliers of materials and specialist contractors for public works on 28 March 2003.

It is expected that the existing contracts YSH has with HKHA and ETWB will be completed latest by the end of 2004. In view of the fact that the Group has refocused its electrical engineering contracting business on the private sector and has been pursuing a diversification strategy to expand its business portfolio in the PRC, the Group has not solely relied on the business of YSH with HKHA and ETWB. Given that the local property market has been sluggish and the Government has ceased Home Ownership Scheme as well as development projects under HKHA and Housing Society, the management has already discounted the business prospects of the public sector in Hong Kong.

As the amount of public housing projects dropped significantly during the Year, the Group's electrical engineering division mainly focused on the outstanding works brought forward at the beginning of the Year. These projects included the rewiring of Lei Cheng Uk Estate, MTR's Tseung Kwan O Extension in Signaling System Installation, and Tin Shui Wai electrical installation. The Group also completed an electrical installation project at an amount of approximately HK$5,100,000 for a printing factory in Dongguan, Guangdong, the PRC which is expected to be a stepping-stone for the Group to tender for similar projects in the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

As part of the means to further its vertical integration and increase its presence in the PRC, the Company entered into a joint venture agreement with 深圳市一輝實業有限公司 (Shenzhen Brilliant Industrial Co., Ltd.) on 19 December 2002 to form a joint venture company known as 深圳耀生行建築諮詢服務有限公司 (Shenzhen Yew Sang Hong Construction Consultant Services Limited) to engage in consultancy and advisory services in respect of various construction engineering and equipment and materials trading business in the PRC. Application for the business licence of the joint venture is still in progress.

The followings is a summary of the Group's active projects for the Year under the Group's accounting policy, being those that contributed to the Group's audited turnover generated from electrical engineering contracting works with a certified sales amount of over HK$2,000,000 each:

Project location	**Approximate contract value (Reference)** *HK$ million*	**Approximate certified turnover recognized during the Year** *HK$ million*
Butterfly & Shan King Estate	57.20	2.70
Kwai Chung Phase 7	22.03	12.83
Tung Chung Area 31 Phase 3	50.62	10.63
Hong Kong Housing Authority-TMC 2001	50.00	41.64
Mei Lam Estate	16.20	15.80
Tung Chung Area 31 Phase 5	46.67	14.27
Tin Shui Wai Area 102 Phase 3	3.28	2.46
Tin Shui Wai Area 111	80.70	51.69
Dongguan Electrical Installation	5.44	5.60
Tseung Kwan O MTRC-Signal System	5.37	3.95
Total	337.51	161.57

Other new projects commenced during the Year with a contract value over HK$5,000,000 were the four projects under School Improvement Programme Phase 1 at an aggregate value of approximately HK$30,500,000. All the projects were in smooth progress and works were completed on schedule during the Year.

The gross margin of the electrical engineering contracting business declined to approximately 9% from approximately 12% last year. The decrease reflected the aggravated conditions of the industry and the extra downward pressure on tender prices during the Year. Other attributable factors included the following:

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

Given the decline in turnover for the Year and the lapse of "Defect Liability Period" for some of the Group's old projects, the amount of retention money held by customers reduced to approximately HK$10,300,000 (2002: HK$12,950,000), a drop of approximately 20.8%.

New projects

The Group secured the following new projects during the Year:

Project	**Description**	**Approximate contract value (HK$ million)**
Tin Shui Wai Area 102 phase 3 Completion Contract	Electrical installation	3.30
School Improvement Programme Final Phase Package 1 Group 1	Electrical installation	8.74
School Improvement Programme Final Phase Package 4 Group 1	Electrical installation	5.40
School Improvement Programme Final Phase Package 6 Group 1	Electrical installation	6.93
School Improvement Programme Final Phase Package 10 Group 1	Electrical installation	9.47
School Improvement Programme Final Phase Package 1 Group 2	Electrical installation	1.86
School Improvement Programme Final Phase Package 1 Group 3	Electrical installation	13.60
School Improvement Programme Final Phase Package 6 Group 3	Electrical installation	10.30
School Improvement Programme Phase 4 Package 2 Group 11	Electrical installation	2.11
Construction of Road T7 in Ma On Shan	Electrical installation	0.31
	Total	62.02

It is expected that these new projects would have lower profit margins than those previous ones owing to strong price competition the Group experienced during the tender process. The Group anticipates that its on-going internal vertical integration might help relieve this negative impact.

As at 31 March 2003, the Group's electrical engineering contracts on hand amounted to approximately HK$244,590,000, with completion of the last contract expected to take place in October 2005.

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ELECTRICAL AND COMPONENT TRADING BUSINESS

Yew Sang Hong Trading Limited ("YSHT") and Brongham Park Limited ("BPL"), both being a wholly-owned subsidiary of the Company, have been suspended from supply of materials for HKHA's projects with effect from 23 May 2002. In light that a former director of the Company was referred to in the particulars of the ICAC Charges, the Building Committee of HKHA has decided to give an administrative direction to all contract managers not to approve any materials to be supplied by YSHT and BPL. The decision will not affect any approval already given by contract managers on materials YSHT and BPL supply. ETWB has under its letter dated 22 November 2002 notified BPL that BPL has been suspended from tendering government works. It is expected that the existing contracts BPL has with HKHA and ETWB will be completed latest by the first quarter of 2004.

In view of the fact that the Group has refocused its electrical materials supply business on the private sector and has been pursuing a diversification strategy to expand its business portfolio in the PRC, the Group has not solely relied on the business of YSHT and BPL have with HKHA and ETWB. Given that the local property market has been sluggish and the Government has ceased Home Ownership Scheme as well as development projects under HKHA and Housing Society, the management has already discounted the business prospects of the public sector in Hong Kong.

During the Year, lighting products and other newly launched products recorded a decline in sales due to sluggish conditions in the local electrical engineering market. Sales of electricity generators declined by about 76.3% to approximately HK$3,653,000 (2002: HK$15,384,000); whereas sales of electrical components increased by about 1.6% to approximately HK$26,088,000 (2002: HK$25,688,000). Sales of electricity generators and sales of other components accounted for approximately 12.3% and approximately 87.7% of the total turnover of the trading business respectively.

As a total solution building service provider, the Group has been vertically integrating into distribution of electrical products by participating in the re-exports of these products from the PRC to Australia, Italy and Japan, with satisfactory progress made during the Year. The Group is looking into opportunities for extension of distribution rights in the PRC.

Hong Kong and the PRC have signed the CEPA under which various categories of products made in Hong Kong will enjoy "zero tariff" for their imports into the PRC. This will create new opportunities for the Group's electrical and component trading business. The Group is looking into the feasibility of relocating some of the outsourced production of its trading products from the PRC back to Hong Kong to take advantage of the "zero tariff" arrangement that might increase the profitability and competitiveness of such products.

MANAGEMENT DISCUSSION AND ANALYSIS

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

	% of total trading turnover	
	2003	2002
Brand		
Benedikt & Jager	**0.8%**	1.0%
Delta	**10.1%**	—
Hanni	**14.7%**	11.9%
Schrack	**20.9%**	22.9%
Togami	**2.4%**	1.9%
TOYO-Branch	**2.6%**	0.6%
Vinidex	**1.0%**	1.2%
VirboPower	**19.0%**	37%
Others	**28.5%**	23.5%
Total	**100.0%**	100.0%

The Group adopted the same policy as last year on delivery of goods to its customers. Under this policy, once the Group receives the goods from its suppliers they are immediately delivered to customers' work sites. Purchase orders are usually placed to suppliers in advance but the Group does not request suppliers' delivery until customers confirm the sales orders. The Group's policy is to shift the risks of holding inventory to suppliers as far as possible. Whilst there was no significant change in the absolute amount of the Group's inventory during the Year, the inventory turnover rate slightly increased from last year's 40 days to 41 days for the Year.

SECURITIES BUSINESS

In April 2002, the Group established a number of companies (including Hong Tong Hai Securities Limited ("HTH") and Hong Tong Hai Consultants Limited) to engage in corporate and business consultancy, direct investments and securities businesses. The Group believes that the financial sector will play a more important role in Hong Kong amidst the transformation of the economy. Although the Hong Kong stock market experienced a setback in recent years, we believe the downturn is cyclical in nature. Hong Kong has irreplaceable advantages that appeal strongly to PRC companies seeking an overseas listing, and will continue to be a major financial centre of the Southeast Asia region. Moreover, overseas financial firms are being admitted as QFII to operate in the PRC capital markets. It is also expected that those PRC firms with QDII status will be allowed to invest in Hong Kong's financial market within this year. With the further opening up of the financial market in the PRC and the PRC government's intention to allow northern PRC enterprises to invest in the southern PRC bourses, there will be great development potential for the Group's securities business. The Group is therefore optimistic about the prospects of its securities business.

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INFORMATION TECHNOLOGY AND E-COMMERCE BUSINESS

In June 2002, the Group entered into a joint venture with 大公國際資信評估有限公司 (Dagong International Credit Rating Company Limited) to form a PRC joint venture 大公信用信息服務有限公司 (Dagong Credit Information Service Co., Ltd.). Under the original agreement, the total investment amount of the joint venture was RMB80,000,000. On 10 March 2003, a supplementary agreement was entered pursuant to which both parties agreed to change the amount to RMB40,000,000 (subject to formal approval from the relevant PRC government authorities). The Group has already injected approximately RMB20,000,000 into the joint venture for its 50% holding. The joint venture will be engaged in the provision of various kinds of credit information services in the PRC to domestic and overseas institutional investors, financial institutions, regulatory authorities, government departments and economic research houses. Owing to the outbreak of SARS, there was a delay in the preparation works of the joint venture. It has now received the operating licence and is developing its operations and business.

On 18 July 2002, the Group acquired a 60% interest of the issued share capital in Cyber Touch Limited, a holding company incorporated in the British Virgin Islands, for an aggregate consideration of HK$18,000,000. The principal asset of the holding company is its 100% interest in 北京易行, a company incorporated in the PRC in June 2000 with its scope of business including manufacturing and sales of computer software and network products, providing services in technology research and development, consultation, trading and transfer. Through its alliance with Bank of Communication in the PRC, 北京易行will launch"太平洋易行聯名卡", a debit card offering financial, tour reservation and travel insurance services. The Group is optimistic about the prospects of this business, which should benefit significantly from the development of consumer services in the PRC.

INVESTMENT BUSINESS

During the Year, the Group has invested in two companies which are engaged in mobile phone trading business in the PRC and trading of pharmaceutical products respectively for a total consideration of approximately HK$7,000,000. Moreover, the Group acquired a 4.04% effective interest in a property development project known as Zhong Du Building, which is located at the northeastern corner of Xin Xing Flyover Interchanges, Xicheng District, Beijing, the PRC, from an independent third party for a consideration of HK$10,700,000. The Group also acquired a total of approximately 2.6% interest in South Sea Holding Company Limited, a company listed on the Stock Exchange, as a long-term investment for an aggregate consideration of approximately HK$4,900,000.

The Group has suspended a proposed investment of acquiring a 24.9% interest in a PRC company that is engaged in investment management services. Under the letter of intent signed on 5 August 2002, the PRC company was to complete its internal assets reorganization within a specified period of time. As the PRC company failed to do so on schedule, the Group could not complete the financial due diligence review and assessment on the PRC company, and decided to suspend the proposed investment on 5 May 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW & ANALYSIS

Financing

Placing of New Shares and Use of Proceeds

On 19 June 2002, the Company placed a total of 23,800,000 new shares of HK$0.10 each of the Company at a consideration of HK$5.13 per share, to independent investors pursuant to the placing and underwriting agreement dated 21 May 2002. The net proceeds from the placing of new shares amounted to approximately HK$118 million, are to be used for the purpose of acquisition of investments and operation of a securities company. Detail information is set out in note 35 to the financial statements.

In view of the change in market circumstances in the electrical engineering industry after the new listing of the Company's shares in April 2001, the directors has taken a prudent approach that it is not in the interests of the Company to expand electrical engineering and trading businesses by applying the full amount of the net proceeds in accordance with the then intended way of usage as stated in the prospectus of the Company dated 11 April 2001. In February 2003, the directors of the Company resolved to change the unused portion of the net proceeds from the listing of the Stock Exchange of approximately HK$22.7 million in 2001 will be allocated into two parts (i) approximately HK$1 million for developing trading business of electrical equipment and materials in the PRC which was fully used up as at 31 March 2003 and (ii) approximately HK$21.7 million for working capital purpose, in particular, for general overheads of the Group.

Liquidity, Financial Resources and Gearing

The Group's total current assets and current liabilities were approximately HK$144,111,000 and HK$48,365,000 respectively as at 31 March 2003 when the current ratio was about 2.98 times. As at 31 March 2003, the Group's aggregate cash amounted to HK$54,441,000, representing approximately 37.8% of total current assets. The Directors believe that the Group has adequate fund for business operation and maintains a high liquidity. The reason for a strong financial position mainly comes from the placing of new shares during the Year approximately HK$118,000,000.

During the Year, the Group's financial position was healthy, principally financed by its equity capital. As shown in the Group's consolidated balance sheet as at 31 March 2003, the consolidated shareholders' funds amounted to approximately HK$183,322,000; whereas the Group's total borrowing was about HK$1,566,000 only which mainly comprised of overdrafts and finance leases in Hong Kong dollars. The bank overdrafts carry interest which links with the best lending rate in Hong Kong whereas the finance charges are fixed on the date of the finance leases entered.

As at 31 March 2003, the gearing ratio, defined as the total debts over total assets, was approximately 0.7% (2002: 4.2%). 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.

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With strong working capital, less banking facilities offered by financial institutes were utilized during the Year. As a result, the Group financial costs in loan and overdraft interests payment were substantially decreased to only about HK$106,000 for the year, a drop of about 45.1% comparing to HK$193,000 for the last year.

Major Investments

1. Acquisition of 北京易行

An indirect wholly-owned subsidiary of the Company acquired 60% stake of Cyber Touch Limited for a consideration of HK$18 million in July 2002. The principal asset of Cyber Touch Limited is 100% interest in 北京易行 which is engaged in manufacture and sales of computer software and network products. Through the alliance with Bank of Communication in China, 北京易行 will lauch "太平洋易行聯名卡" which provides financial, tour reservation and travel insurance services. The Directors believe that it is an excellent opportunity to broaden 北京易行 network in the PRC. As the 北京易行 is currently in the development stage, it sustained a loss of approximately HK$2,960,000 for the year.

2. Other Investments

During the Year, the Group has invested in two associated companies which are engaged in mobile phone trading business in the PRC and trading of pharmaceutical products respectively. Total investment in the two companies amounted to approximately HK$7 million. The mobile phone trading business contributed satisfactory return to the Group whereas the trading of pharmaceutical products is still suffering loss for the year.

Besides, the Group has acquired 4.04% equity interest in a property investment project located at Northeastern Corner of Xin Xing Flyover Interchange, Xicheng District, Beijing, PRC from an independent third party at a consideration of HK$10,700,000. The Group has also acquired approximately 2.6% equity interest in South Sea Holding Company Limited, a company listed on the Stock Exchange, at an aggregate consideration of approximately HK$4,900,000 as long-term investment.

Foreign Exchange Management

The Group's purchases from overseas suppliers are always subject to foreign currency fluctuations. The Group monitors the risks in foreign exchange by way of placing forward foreign exchange contracts. Basically, the Group has not changed 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 2003, the Group had no outstanding forward foreign exchange contracts on hand (2002: nil).

Contingent Liabilities and Capital Commitments

The Group had no material contingent liabilities and significant capital commitments.

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Charge of Assets

As at 31 March 2003, the Group had pledged fixed deposits of approximately HK$10,951,000 to banks to secure general banking facilities granted to the Group.

Employees

As at 31 March 2003, the Group has a total number of 75 staff. Remuneration is determined by reference to their qualifications, experiences, responsibility and performance of the staff concerned. The Group has set up a performance evaluation policy and will award those employees with outstanding performance. Apart from the basic remuneration, staff benefits include medical insurance, share option, retirement benefits under Mandatory Provident Fund Scheme, etc.

FUTURE PROSPECTS

General

The global economy remains lacklustre and no signs of an imminent recovery are in sight. In the United States, unemployment rate soared to 6.4% this June, the highest since April 1994, raising concerns if the interest rate cuts and tax reduction measures can really stimulate consumption as corporations continue to cut staff and streamline their operations. Weak consumption, declining corporate earnings and high unemployment form a vicious circle in the United States, and this vicious circle is more pronounced in Hong Kong. SARS has dealt a severe blow to the Hong Kong economy; nonetheless the impact should be temporary. Ultimately, whether the Hong Kong economy can achieve a sustainable recovery, depends to a great extent on how the vicious circle can be broken. Even if propping up property prices could lead to an economic rebound, the latter might turn out to be short-lived if the vicious circle remained unbroken. The local stock market has rallied in recent months, taking heed of the surge in the United States market. Yet the rally has shortly run out of steam, which underlined the fundamental weakness of the Hong Kong economy.

Nevertheless, the management remains confident about the long-term economic prospects of Hong Kong. This is because Hong Kong has the PRC as its hinterland, and the PRC manages to sustain strong economic growth despite the impact brought by SARS and other isolated setbacks. With the signing of CEPA between Hong Kong and the PRC, various categories of products made in Hong Kong will enjoy "zero tariff" for their imports into the PRC. This is a big gift given by the PRC to Hong Kong. The management therefore considers Hong Kong and the PRC as the Group's priority markets for further development.

Outlook for the electrical contracting industry

Given the prevailing weakness of the economy and the existing housing policy of the Hong Kong Government, the local building services industry would continue to face great difficulties in the coming year. It is expected that the volume of new works, in particular those offered by the public sector, would be quite limited. More contractors who were previously active in the public sector are expected to move into the private sector, which could result in more intensified competition and extra pressure on contract prices.

MANAGEMENT DISCUSSION AND ANALYSIS

In view of the significant decline in the number of public housing projects, the Group has embarked on a dynamic corporate plan, which includes diverting the Group's core business towards the private sector. Target segments include property developers, estate management companies, public utilities, hotels, schools and educational institutions. Moreover, the Group has been actively developing electrical engineering maintenance services for buildings and housing estates that can generate a steady source of revenue. On the other hand, the Group foresees that competition in the private housing sector will grow more intense in the foreseeable future. Hence the Group has been actively seeking for opportunities in the PRC for its core businesses. During the Year, the Group completed an electrical installation project at an amount of approximately HK$5.1 million for a printing factory in Dongguan, Guangdong, the PRC which is expected to be a stepping-stone for the Group to increase its PRC exposure. The Group is now planning to tender for a number of similar projects in the PRC.

In order to reinforce its competitive advantages as a total solution provider, the Group has been vertically integrating its operations by further strengthening the electrical and component trading business. The addition of lighting and other non-electrical products to its distribution has further enhanced the Group's trading product range. Moreover, the Group has seized the opportunity of strong overseas demand for low-cost electrical products made in the PRC for industrial and domestic usages, by engaging in the re-exports of such products from the PRC to overseas countries such as Australia, Italy, Japan, and the United States. These efforts have begun to make yields. Furthermore, under the CPPA signed between Hong Kong and the PRC, various categories of products made in Hong Kong will enjoy "zero tariff" for their imports into the PRC. This will create new opportunities for the Group's electrical and component trading business. The Group is looking into the feasibility of relocating some of the outsourced production of its trading products from the PRC back to Hong Kong to take advantage of the "zero tariff" arrangement that might increase the profitability and competitiveness of such products.

Outlook for the Group

Other than the electrical contracting industry the prospect of which is described above, the Group's horizontal diversification has yielded a sizeable business portfolio. All of our new businesses, including the securities business, information technology and e-commerce, and other investments, are closely related to the fundamental developments (in particular the financial market development) of the PRC economy. Foreign financial firms are being admitted as QFII to operate in the PRC capital markets. It is also expected that the QDII policy will be formalized within this year that will open limitless opportunities. The Group will make its best efforts to develop this market.

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In February 2002, the independent shareholders of the Company (those other than YSH Investments Limited and Highworth Venture Limited) approved at an extraordinary general meeting the Company's proposal to engage in investing in securities via HTH, which commenced stockbroking business in September 2002. The proposal aimed to provide HTH with greater flexibility to operate its business in order to capture more opportunities and maximize its cost effectiveness. With the approval granted, the Group has been engaged not only in stockbroking but also investing in securities. However, the Group's policy is to make investment in securities only for long-term investment purposes, and careful evaluation must be made beforehand on the underlying companies' fundamentals, price performance and liquidity of the securities.

As for 北京易行, it serves its 16 million members through the website of "www.helptrip.com.cn" (the "Helptrip"). 北京易行 will cooperate with Bank of Communication in the PRC to jointly launch a debit card, "太平洋易行聯名卡", in the second half of 2003. Leveraging on the combined client base of the two parties, the card will offer comprehensive financial services, as well as other services including hotel reservation, ticket reservation, tour booking and travel insurance. This is expected to help increase the patronage for "Helptrip" services. It is anticipated that the business will have tremendous room to grow given the PRC's rising per capita consumption power.

The Group is also evaluating other investment opportunities in the PRC market. One of these is related to intelligent building, which can enable the Group to further utilize its strong knowledge and expertise to expand the source of revenue for its core businesses. Another investment opportunity concerns environmental protection by using sophisticated technology to transform domestic waste into electricity fuel. If the Group's scrutiny of these opportunities turns out positive and the Group secures the investments, it is expected that they could provide good benefits to the Group's long-term profitability.

The management believes that the Group is now in a stage of transition. While confronting great challenges, the management bears in mind a western saying: "When the going gets tough, the tougher gets going". The Group has successfully made a big step forward in a short period of time in spite of the formidable challenges. Looking ahead, the management will work even harder to secure the Group's successful transformation as soon as possible so as to thank shareholders for their strong support.