

# MANAGEMENT DISCUSSION AND ANALYSIS

## RESULTS

The Group recorded a drop in turnover during the year by 11.6% to HK\$199,882,000 (2002:HK\$226,143,000). The profit attributable to shareholders for the year ended 31 March 2003 was approximately HK\$8,082,000, a decrease of 68.5% over last year's profit of HK\$25,664,000.

## BUSINESS REVIEW

Reviewing last year's performance, the Group's principal markets were China and Hong Kong, which accounted for about 64% and 31% of the Group's total turnover respectively. Under a difficult and sluggish economic conditions, the Group recorded a turnover of HK\$199,882,000, representing a decrease of 11.6% over the previous year. This was partly attributable to the significantly drop in the sales of yachts due to the weak market sentiment and the inability of the subcontractors to produce the yachts in a more timely fashion. In addition, the contract sum from the projects of railway maintenance equipment was smaller than that of the previous year. However, sales in Hong Kong was increased by 8% as compared to the last year. The increase in turnover was mainly due to the increase in engineering services for buses and coaches in Hong Kong.

For the year under review, the Group recorded a drop in net profit of 68.5% to HK\$8,082,000. This was partly attributable to the economic slowdown in Hong Kong. Like most companies operating in Hong Kong, the Group faced with the unfavorable operating environment in Hong Kong. The weak Hong Kong economic situation had affected the customers' confidence, which in turn affected the demand of trucks in Hong Kong. The property markets remained sluggish and continued to decline. As a result, the Group had made a deficit on revaluation of the properties of HK\$1,605,000. The strong Euro against US dollars had increased the Group's cost of sales and affected our profit margin. These negative effects had reflected in the Group's performance during the year under review.

During the year, the Group established a wholly owned company in Zhuhai, namely Yardway Logistics Equipment (Zhuhai) Company Limited in order to explore the potential business in logistics equipment and assembling and integrating railway maintenance equipment and the related systems.

The Group also entered into a joint venture agreement with Trade Port Enterprises Limited, a wholly owned subsidiary of New World Development Company Limited and China National Aviation Corporation (Group) Limited in relation to the establishment of a joint venture to engage in the acquisition of the property located at Tsing Yi Town Lot No. 128 for the potential development of warehousing business in Hong Kong. Through such investment, the Group indirectly owns 10% equity interest in the joint venture.

# Management Discussion and Analysis

## FUTURE OUTLOOK

The management is optimistic about the economic growth in the PRC. The economy of China continued to grow which presents a market with tremendous business opportunities. The Group will continue to focus its core operations in the PRC with a view to capture the investment opportunities as they arise.

The Hong Kong economy is driven to a great extent by the global economy. The high unemployment rate and the low economic growth in recent months have indicated that the trading environment in Hong Kong will still be difficult in the coming year. The Group's operations in Hong Kong will face that challenge. The management will continue to control its operating costs in order to increase its competitive edge.

Given our indepth understanding of the market, the Group has the ability and the flexibility to meet these market challenges.

The management would like to thank for all staff for their hard work amidst a very competitive environment during the year.

## EMPLOYEES AND REMUNERATION POLICY

The total number of staff of the Group as at 31 March 2003 was 130 (2002: 127). The Group's remuneration packages include basic salary, double pay, commission, insurance and medical benefits. Remuneration packages are normally reviewed annually. Share options might also be granted to eligible employees of the Group. As at the date hereof, a total of 10,000,000 share options have been granted to selected eligible executives.

## LIQUIDITY AND FINANCIAL RESOURCES

### *Liquidity*

The Group finances its business activities with its internal cash flows, banking facilities and proceeds from the initial public offering. As at 31 March 2003, the Group had cash and bank balances including pledged fixed deposits totalling HK\$34,714,000 (2002: HK\$78,482,000). The Group's cash and bank balances were mainly denominated in Hong Kong dollars and US dollars.

As at 31 March 2003, the Group's current assets and current liabilities were approximately HK\$170,704,000 and HK\$106,045,000 respectively. The current ratio of the Group was 1.6, calculated on the basis of current assets over current liabilities (2002:1.7).

# Management Discussion and Analysis

## LIQUIDITY AND FINANCIAL RESOURCES (Continued)

### *Liquidity (Continued)*

The total bank borrowings outstanding was approximately of HK\$41,533,000 (2002: HK\$34,886,000). The Group's bank borrowings were mainly denominated in Hong Kong dollars, United States dollars and Euro. The annual interest rates of such borrowings for the year under review ranged from prime rate to prime rate plus 0.5%. Its gearing ratio, representing a ratio of total borrowings to total assets, was 20% (2002:17% ).

### *Exchange exposure and hedging*

The Group's revenue was mainly denominated in the currencies of United States dollars, Japanese Yen, Renminbi and Hong Kong dollars while the costs were substantially denominated in Euro. As such, the Group is subject to foreign currency exposure in the rates of exchange between the currencies in which its income is denominated and those in which the Group incurs costs. Any significant volatility and weakening of United States dollars against Euro could adversely affect the Group's business and the results of operations.

The Group will conduct periodic review on its foreign currency exposure and hedges such exposure arising from major contracts entered into by the Group denominated in foreign currencies (other than those denominated in US dollars, the exchange rate which has pegged with Hong Kong dollars) through the use of short term foreign contracts from time to time.

### *Charge on Assets*

Certain of the Group's leasehold properties situated in Hong Kong with an aggregate net book value amounting to HK\$18,861,000 (2002: HK\$8,900,000) and bank fixed deposits of HK\$12,777,000 as at 31 March 2003 (2002: HK\$15,655,000) were pledged to banks to secure banking facilities granted to the Group.

## USE OF PROCEEDS

The net proceeds from initial public offering of the Company amounted to approximately HK\$32 million. On 24 January 2003, the Company announced that, in order to cope with the recent development of the businesses of the Group, the directors had resolved to change part of the use of proceeds disclosed in the prospectus dated 19 March 2002. The proceeds were applied during the year ended 31 March 2003 as follows:-

- as to approximately HK\$2,106,000 for the expansion of the sales and marketing team in both Hong Kong and the PRC;
- as to approximately HK\$2,071,000 for the expansion of the Group's after sale services, including acquiring and upgrading in-house facilities and the recruitment of additional engineers;

## Management Discussion and Analysis

### USE OF PROCEEDS (Continued)

- as to approximately HK\$4,073,000 for participating to form a joint venture in the acquisition of the property for the development of warehousing business;
- as to approximately HK\$2,699,000 for the setting up a wholly foreign owned enterprise in the PRC to engage in inter alia, developing, design, manufacturing and sales of sorting and conveyor system, welding machines and railway maintenance equipment and the design, development and installation of logistics related equipment;
- as to approximately HK\$1,736,000 for the promotion of the Group's corporate profile by participating in relevant exhibitions and organizing seminars introducing new equipment to potential customers; and
- as to approximately HK\$8,000,000 as general working capital of the Group.

The remaining of unused proceeds is placed on short term deposits with various banks in Hong Kong.