



# Hong Tong Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Interim Report 2003



**CORPORATE INFORMATION**

**Board of directors**

Executive Directors  
 Mr. Hon Ming Kong (*Chairman*)  
 Mr. Hon Yik Kwong  
 Mr. Lee Yu Leung

Independent Non-executive Directors

Mr. Fork Siu Lun, Tommy  
 Mr. Tsoi Wai Kwong

**Company secretary**

Mr. Chan Tak Hing, Kenji

**Audit committee**

Mr. Fork Siu Lun, Tommy  
 Mr. Tsoi Wai Kwong

**Registered office**

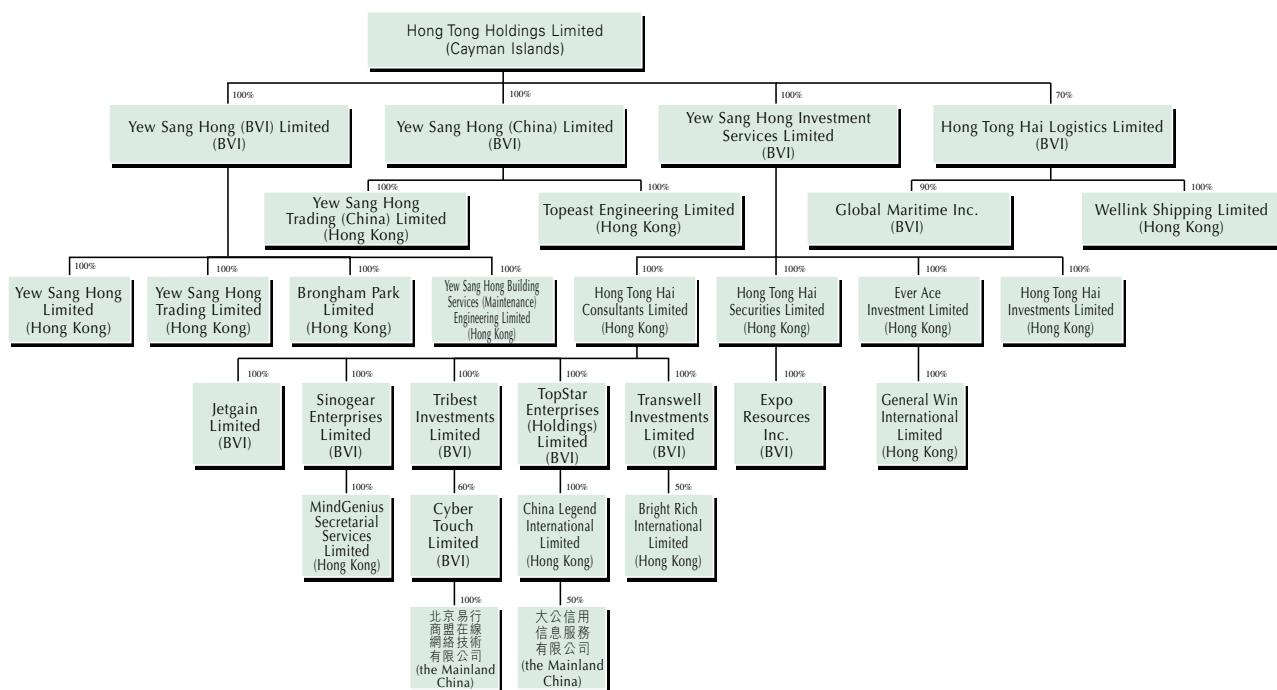
P. O. Box 309  
 Ugland House  
 South Church Street  
 George Town  
 Grand Cayman  
 Cayman Islands  
 British West Indies

**Head office and principal place of business in Hong Kong**

Unit 3616, 36/F  
 China Merchants Tower  
 Shun Tak Centre  
 168-200 Connaught Road Central  
 Sheung Wan, Hong Kong  
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**GROUP STRUCTURE**

As at 30 September 2003, the corporate structure of the principle members of the Group are set out below:





## MANAGEMENT DISCUSSION & ANALYSIS

### Review of Operations

During the Period, the Group recorded an unaudited loss attributable to shareholders of approximately HK\$7,692,000 (2002: Loss of approximately HK\$10,519,000). Turnover of the current period was HK\$70,361,000 representing a decrease of 26.9% as compared to the corresponding period last year.

### Electrical Engineering Contracting Business

During the Period, the Group mainly continued its outstanding work in progress brought forward at the beginning of the Period.

Redevelopment of Kwai Chung Estate Phase 7, Term Contract for Electrical Maintenance Work to Tai Yuen Estate, and Tin Shui Wai Area 102 Phase 3 "Completion Contract", were completed during the Period under review.

As at 30 September 2003, the Group's electrical engineering contracts on hand amounted approximately HK\$114.9 million in total, comprising HK\$107.7 million for "New Works Contracts", and HK\$7.2 million for "Maintenance Projects".

Yew Sang Hong Limited ("YSH"), a wholly owned subsidiary of the Company, ceased, with effect from 23 May 2002, to be invited to tender for any works for the Hong Kong Housing Authority ("HKHA"), as per the decision of HKHA's Building Committee, in light that a former director of the Company 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 decision of HKHA does not affect existing contracts that YSH has with HKHA. YSH was eventually removed from HKHA's List of Electrical Contractors with effect from 15 August 2003.

The Environment, Transport and Works Bureau ("ETWB"), as a result of the ICAC Charges, also removed YSH from all categories in the list of Approved Suppliers of Materials and Specialist Contractors for Public Works on 31 March 2003.

### Electrical & Component Trading Business

The following is a breakdown of the Group's trading business by principal product brand for the year:

Brand	Origin of Manufactures	Products
Togami	Japan	Thermal overload relays switchgears contactors
Carlo Gavazzi	Europe	Electronic controls & monitoring systems
Garre	Denmark	Current transformers
Rupam	India	Brass cable glands & cable accessories
Axis	India	Copper cable lugs, earthing systems & accessories
Polywater	U.S.A	Cable pulling lubricant



In view of the fact that 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.

Yew Sang Hong Trading Limited ("YSHT") and Brongham Park Limited ("BPL"), both being a wholly-owned subsidiary of the Company, ceased from supply of materials for HKHA's projects with effect from 23 May 2002, in light of the ICAC Charges (which also involved a former director of BPL), as per the decision of HKHA's Building Committee to give an administrative direction to all contract managers not to approve any materials to be supplied by YSHT and BPL for its projects. YSHT and BPL were eventually removed from HKHA's Control List with effect from 25 May 2002 and 1 April 2003 respectively. The decision will not affect any approval that has already been given prior thereto. ETWB as a result of the ICAC charges, also removed BPL from all categories in the list of Approved Suppliers of Materials and Specialist contractors for Public Works on 11 April 2003. It is expected that the existing contracts BPL has for supply of materials for the works of HKHA and ETWB will be completed latest by the first quarter of 2004.

### **Securities Brokerage Business**

Hong Tong Hai Securities Limited ("HTHS"), and Hong Tong Hai Consultants Limited are engaged 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, it is believed that the downturn is cyclical in nature. Hong Kong has irreplaceable advantages that appeal strongly to the People's Republic of China ("PRC") companies seeking an overseas listing, and will continue to be a major financial center of the Southeast Asia region. Moreover, overseas financial firms are being admitted as Qualified Foreign Institutional Investors to operate in the PRC capital markets. It is also expected that those PRC firms with Qualified Domestic Institutional Investors status will be allowed to invest in Hong Kong's financial market in the near future. 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 substantial growth potential for the Group's securities business. The Group is therefore optimistic about the prospects of its securities business. In fact, the business of HTHS has been improving along with the positive trend of the Hong Kong stock market, and it is expected that HTHS will strike a breakeven for the year.

### **Financial Review & Analysis**

#### ***Financing***

#### ***LIQUIDITY, FINANCIAL RESOURCES AND GEARING***

The Group's total current assets and current liabilities were approximately HK\$148,357,000 (as at 31 March 2003: HK\$144,111,000) and HK\$63,513,000 (as at 31 March 2003: HK\$48,365,000) respectively as at 30 September 2003 when the current ratio was about 2.34 times (as at 31 March 2003: 2.98 times). As at 30 September 2003, the Group's aggregate current deposits and cash amounted to HK\$14,333,000 (as at 31 March 2003: HK\$54,441,000), representing approximately 9.66% (as at 31 March 2003: 37.77%) of total current assets. The Directors believe that the Group has adequate fund for business operation and maintains a high liquidity.

As shown in the Group's consolidated balance sheet as at 30 September 2003, the consolidated shareholders' funds amounted to approximately HK\$175,630,000 (as at 31 March 2003: HK\$183,322,000); whereas the Group's total borrowing was about HK\$9,084,000 (as at 31 March 2003: HK\$1,566,000) only, which mainly comprised of overdrafts, borrowings 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 30 September 2003, the gearing ratio, defined as the total debts over total assets, was approximately 3.75% (as at 31 March 2003: 0.7%). The increase in the gearing ratio was mainly due to the increase in bank borrowings arising from the Company's margin-securities business.

#### ***Placing of New Shares and Use of Proceeds***

On 19 June 2002, the Company placed 23,800,000 new shares of HK\$0.10 each at the placing price of HK\$5.13 per placing share to independent investors pursuant to the placing and underwriting agreement dated 21 May 2002. On 19 September 2003, the Company entered into an agreement for the placement of 44,760,000 new shares with an independent agent, and successfully raised HK\$ 51,100,000 (net) through the placement of all shares at a consideration of HK\$1.18 per share on 21 October 2003. The abovementioned placing of shares are mainly for investing in the development of the waste processing projects in the PRC and as general working capital of the Group.

#### ***Major Investments***

In June 2003, the Group entered an sale and purchase agreement to acquire 100% of beneficial interests in MindGenius Secretarial Services Limited, a company incorporated in Hong Kong, at an aggregate consideration of HK\$2,000,000. The Company is principally engaged in provision of company secretarial services to external customers. The subsidiary contributed insignificant turnover and results to the Group during the period.

Subsequent to period end, the Group entered into a sale and purchase agreement with independent third parties to acquire the King Glory Development Limited for an aggregate consideration of not more than HK\$45,400,000. The completion of the sale and purchase agreement is conditional on, among other things, the formation of the first joint venture enterprise to be engaged in the business of the development, construction and management of the waste incineration and processing is completed and the approval from the shareholders of the Company approving the issue of allotment of aggregate of 30,000,000 shares of the Company. Under the sale and purchase agreement, the consideration of not more than HK\$45,400,000 shall be satisfied, (a) as to HK\$1 million to be paid by the Group in cash on completion of the acquisition of the Proposed Investment; (b) as to HK\$3.54 million by the issue and allotment of 3,000,000 shares of the Company at the price of HK\$1.18 per share on completion of the acquisition of the Proposed Investment; and (c) as to the balance of not more than HK\$40,860,000, the Group shall, during the period of three years from the date of completion of the acquisition, pay to the vendors a sum of HK\$4.54 million, which shall be satisfied as to HK\$1 million in cash and as to HK\$3.54 million by shares of the Company within a period of 10 days after the establishment of each subsequent joint venture enterprise for the waste incineration and processing business and the fulfillment of other related conditions. On 23 December 2003, the Group entered into a co-operation agreement with a PRC party relating to the formation of a joint venture for the waste incineration and processing business project in Dongguan, the PRC. The registered capital of the joint venture will be RMB100 million against which RMB90 million, representing 90% interest in the joint venture is attributable to the Group.

#### ***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 of its foreign exchange management policy since the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). During the Period, such risks were comparatively lessened because of the reduced overseas purchases caused by shrinkage in trading business activities during the Period. As at 30 September 2003, the Group had no outstanding forward foreign exchange contracts on hand.



## Contingent Liabilities and Capital Commitments

Detail of the contingent liabilities (and capital commitments) are set out in notes 17 and 18 of the condensed financial statements.

## Charge of Assets

As at 30 September 2003, the Group has pledged fixed deposits of approximately HK\$8,194,000 to banks to secure general banking facilities granted to the Group.

## Prospects

The deteriorating waste pollution situation in the Mainland China cities has already aroused serious concern by various levels of the Mainland China Government. As shown by statistics, medium to large cities in the Mainland China were producing 100 million tons wastes per year, and a large city with a similar size to Guangzhou would be creating 6,000 tons wastes each day. Among the some 670 medium to large cities in the whole nation, among which 30% of them were trapped in wastes. The Group considers that the above represents a new opportunity. Apart from going on with its existing electrical engineering business, the Group is determined to develop waste combustion electric power business in the Mainland China.

The Group sees the strong potential of waste combustion electric power business in the Mainland China. Technically, the business will be backed up by a former group member of the Chinese Academy of Sciences, 北京中科通用能源環保有限責任公司(BGEE). Leveraging on the "Circulating Fluidized Bed (CFB) Boiler Combustion Technology" provided by BGEE, the Group plans to invest in the establishment of waste combustion power plants in costal cities in the Mainland China, and the first project will be situated in Qingshan, Nancheng Region of Dongguan City ("Dongguan Electrical Factory"). The project will be jointly developed by the Group's subsidiary Hong Tong Hai Investments Limited ("HTHI") and 中科實業集團(控股)公司(「中科集團」), and 90% of the controlling intent will be held by HTHI.

The total investment of the waste combustion treatment plant amounts to about RMB328 million, 30% of which will be provided by the Group and 中科集團 in accordance with their shareholding to the Dongguan Electrical Factory, while the remaining will be raised externally through bank financing and other channels. The plant is currently undergoing site formation and registration etc. pre-operational work, and it is expected to commence trial running after 18 months. Upon official commencement of production, the plant will be able to treat 1,000 tons waste per day, resolving the urban waste problem in Dongguan urbanity. On the other hand, waste heat generated during the combustion process can be used for power generation and put onto power network. The annual waste treatment volume of the entire project will reach 365,000 tons, while the power generation capacity will be 18,400 units. The total operation life span is 25 years. The major income sources of the project will be: 1) urban waste treatment fees payable by the Dongguan Municipal Government to the Company calculated on a treatment volume basis; and 2) income generated from electricity put onto power network. Currently, the Groups estimates that the rate of return is to be above 10%. Apart from the abovementioned Dongguan project, the Group is undergoing negotiation in respect of several waste combustion electric power projects in Central and Northern regions in the Mainland China, and has elicited pragmatic discussions. The Group does not exclude the possibility of further placing and financing in order to meet the needs of developing this new business in change policy by the HKSAR Government.



The Group has once been taking up one-third of the electric engineering market in Hong Kong. However, due to the weak demand from public housing and weak demand for infrastructure projects during the recent years, the Group has shifted its focus onto exploring possibilities from residential buildings and material supply markets in the Mainland China. Equipped with years of experience in the industry, the Group is extensively familiarized with every segment of the building services and facilities business. Meanwhile, the Mainland China has recorded tremendous progress with giant strides. This is especially true for the property market, which has seen many new buildings sprouting like mushrooms. In view of this, the Group has strived to the exploration of opportunities in the Mainland China, and has already entered into the final stage of negotiation with a large-scale development in Shenzhen City for the electric facilities contract of the entire estate.

In addition, the Company possesses a number of internationally renowned brands of electric facilities and several distribution rights for certain materials and products. In respect of the Mainland China market, the Group is committed to several goals, namely realizing a vertically integrated structure, participating in the re-export business of electric products from the Mainland China to Europe and Asia, as well as competing for distribution rights in the Mainland China.

The Hong Kong economy has seen marked improvement since the implementation of the Mainland China and Hong Kong Closer Economic Partnership Arrangement (CEPA), with the trading volume of the stock market escalating from HK\$7 billion at the beginning of the year to more than HK\$10 billion lately. Following the lead of world bull market and international funds, the stock market has once recorded an increasing trend for 7 consecutive months. At the same time, the market has repeatedly marked record-breaking trading volumes of local stocks recently, climbing close to HK\$17 billion in October, representing the highest level during the 44-month period since the IT wave in March 2003. The Board believes that global trading of Hong Kong stocks will be reinforcing its prime role in the Asian region, and the futures market will be optimistic. These favorable factors will be bringing along positive effects to the Group's wholly-owned subsidiary, HTHS further boosting its securities brokage business.

In fact, Hong Kong has a brighter prospect in sight, while the pressure for deflation is decreasing. Coupled with an increasing demand for capital, the Hong Kong economy is on the trend for improvement. In order to maintain its competitiveness on the market, the Group has to equip itself with the capability to provide diversified and comprehensive services. To this end, the Group has already developed the securities business through HTHS. With the establishment of HTHS, the Group aims to capitalize on the opportunities of undertaking a range of businesses including placing and underwriting, which in turn will enhance its flexibility in related businesses. However, the Group does not intend to overemphasize on its securities brokage business. The swift growth in the PRC economy and the implementation of CEPA have led to the strengthening of the trade and business relationship between the PRC and Hong Kong. In view of this, the Group is seriously considering and looking for logistics business development opportunities in the PRC and Hong Kong.

## **CORPORATE GOVERNANCE AND OTHER INFORMATION**

### **Code of Best Practice**

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules during the Period.

### **Review of Interim Results**

The interim financial report of the Group for the six months ended 30 September 2003 has not been audited, but has been reviewed by the Audit Committee of the Board and the Company's auditors, Messrs. Deloitte Touche Tohmatsu.



### Audit Committee

The Company has set up an Audit Committee (the "Committee") on 3 April 2001, comprising two independent non-executive directors of the Company with terms of reference prepared based on "A Guide for the formation of an Audit Committee" published by the HKSA. The principal duties of the Committee are to review and supervise the Group's financial reporting process and internal control system. The meeting of the Committee was held on 29 December 2003. The Committee has already reviewed the interim report and the condensed financial statements for the Period.

### INTERIM DIVIDEND

The Directors of the Company have resolved not to declare any interim dividend for six months ended 30 September 2003 (2002: Nil).

### Directors' Interests

As at 30 September 2003, the Directors and the Chief Executive of the Company and/or any of their respective associates had the following interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Part XV of the SFO or the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"):—

#### (a) *Interests and short positions in the shares, underlying shares and debentures of the Company*

##### (i) *Long position in the shares of the Company*

Name of Director	Notes	Number of ordinary shares beneficially held and nature of interest		Approximate percentage of total shareholding (%)
		Personal	Corporate	
Hon Ming Kong	(a)	—	54,900,000	24.53%
Tsoi Wai Kwong	(b)	174,000	—	0.08%

*Notes:*

- (a) These shares are owned by Highworth Venture Limited, a company incorporated in the British Virgin Islands which is wholly-owned by Mr. Hon Ming Kong.
- (b) Mr. Tsoi Wai Kwong was appointed as an Independent Non-Executive Director of the Company on 22 September 2003.





## (ii) Long position in the underlying shares of the Company

Share options in the Company						
Name of Director	Date of grant of share options	Exercise period of share options	Exercise price per share HK\$	Number of share options outstanding	Number of total underlying shares	Approximate percentage of total shareholdings (%)
Hon Ming Kong	14/05/02	14/11/02-13/11/07	4.960	2,000,000	4,000,000	1.78731%
	27/08/03	27/08/03-26/08/08	1.306	2,000,000		
Hon Yik Kwong	28/07/03	28/07/03-27/07/08	1.350	2,000,000	2,000,000	0.89366%
Lee Yu Leung	01/02/02	01/09/02-01/09/07	1.494	2,000,000	4,000,000	1.78731%
	27/08/03	27/08/03-26/08/08	1.306	2,000,000		

Other than as disclosed above and certain nominee shares in subsidiaries held by the Directors in trust for the Group, none of the Directors or Chief Executives, or their associates, had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations (within the meaning of Part XV of SFO) which are required to be entered into the register kept by the Company pursuant to section 352 of the SFO or any interests which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules or under Division 7 and 8 of Part XV of the SFO.

**Substantial Shareholders' Interests**

As at 30 September 2003, the register of substantial shareholders' interests in shares and short positions maintained under section 336 of the SFO showed that the Company had been notified of the following interests, being 5% or more held in the shares and underlying shares of the Company.

**Long position in the shares of the Company:**

Name of Shareholders	Number of ordinary shares held	Approximate percentage of total shareholding (%)
Highworth Venture Limited (Note a)	54,900,000	24.530
YSH Investments Limited (Note b)	58,916,000	26.325
AWH Fund Ltd. (Note c)	27,366,000	12.228



Notes:

- (a) Highworth Venture Limited is a company beneficially wholly owned by Mr. Hon Ming Kong, Chairman and Executive Director of the Company.
- (b) Mr. Lai Sai Sang, the former Chairman of the Company and currently, director of certain subsidiaries of the Group, has a 90.4% beneficial interest in YSH Investments Limited and therefore Mr. Lai Sai Sang is deemed to be interested in the 58,916,000 shares held by YSH Investments Limited by virtue of SFO.
- (c) Based on the information provided by the Stock Exchange official website on 29 December 2003.

Except disclosed aforesaid, to the best of the knowledge and belief of the Company, no other person, together with his/her associates, was beneficially interested in shares of the Company representing 5 per cent. or more of the issued share capital of the Company.

### Share Option Schemes

On 12 February 2003, the share option scheme adopted by the Company on 3 April 2001 (the "Old Share Option Scheme") was terminated and a new share option scheme (the "New Share Option Scheme") was adopted by the Company for the purpose of in line with the changes of Listing Rules in relation to share option scheme and to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the eligible employees and for such other purposes as the Directors may approve from time to time. All options granted under the Old Share Option Scheme shall continue to be valid and exercisable in accordance the rules of the Old Share Option Scheme and the provisions of Chapter 17 of the Listing Rules. However, the Company will not grant any further options under the Old Share Option Scheme. The Company has granted 11,000,000 options under the Old Share Option Scheme and 4,500,000 of which has lapsed. As at 30 September 2003, 6,500,000 of which remained outstanding.

The total number of securities available for issue under the New Share Option Scheme is 22,380,000 shares, representing 10.00% of the issued share capital of the Company. During the reporting period, the company granted 17,000,000 options under the New Share Option Scheme. 200,000 of which has lapsed and as at 30 September 2003, 16,800,000 options remained outstanding and 5,380,000 options remained available for issue under the new share option scheme 16,800,000 of which remained outstanding.

The fair value of the options granted in the period concerned totaled approximately HK\$11,278,000. The following significant assumptions were used to derive the fair values using the Black-Scholes option pricing model:

- 1. an expected volatility of 94.41%;
- 2. no annual dividend; and



3. the following Hong Kong Exchange Fund Notes rates for the option category indicated and based on the estimated expected life indicated:

Option Type	Exchange Fund Note Rate	Expected Life
2003 A	5.49%	5 years
2003 B	5.20%	5 years
2003 C	4.92%	5 years
2003 D	4.96%	5 years
2003 E	3.17%	5 years
2003 F	3.54%	5 years

No charge is recognized in the income statement in respect of the value of options granted in the period.

A summary of the movements during the Period in the Company's share options is as follows:

Name of Director	Option Type	Number of share options				Outstanding as at 30 September 2003
		Outstanding at 1 April 2003	Granted during the Period	Lapsed during the Period	Exercised during the Period	
Hon Ming Kong	2003D	2,000,000	—	—	—	2,000,000
	2003F	—	2,000,000	—	—	2,000,000
Hon Yik Kwong	2003E	—	2,000,000	—	—	2,000,000
Lee Yu Leung	2002A	2,000,000	—	—	—	2,000,000
	2003F	—	2,000,000	—	—	2,000,000
Zhang Dachun	2003B	2,000,000	—	2,000,000	—	—
		<u>6,000,000</u>	<u>6,000,000</u>	<u>2,000,000</u>	<u>—</u>	<u>10,000,000</u>
Employees:	2003A	500,000	—	—	—	500,000
	2003C	2,000,000	—	—	—	2,000,000
	2003E	—	400,000	200,000	—	200,000
	2003F	—	10,600,000	—	—	10,600,000
TOTAL		<u>2,500,000</u>	<u>11,000,000</u>	<u>200,000</u>	<u>—</u>	<u>13,300,000</u>



Details of specific categories of options are as follows:

<b>Option Type</b>	<b>Date of Grant</b>	<b>Exercise Period</b>	<b>Closing price immediately before/ on the date of grant HK\$</b>	<b>Exercise price per share HK\$</b>
2002A	1 February 2002	1 September 2002-31 August 2007	1.520	1.4944
2003A	2 April 2002	3 October 2002-2 October 2007	3.000	3.0550
2003B	8 April 2002	9 October 2002-8 October 2007	3.300	3.3000
2003C	3 May 2002	3 November 2002-2 November 2007	4.530	4.6200
2003D	14 May 2002	14 November 2002-13 November 2007	4.950	4.9600
2003E	28 July 2003	28 July 2003-27 July 2008	1.350	1.3500
2003F	27 August 2003	27 August 2003-26 August 2008	1.170	1.3060

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the Directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

#### **Purchase, Sale or Redemption of Shares**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the Period.

#### **Employees and Remuneration Policy**

As at 30 September 2003, the total number of staff in the Group mainly employed in Hong Kong was over 60 (2002: 80). Remuneration packages are normally reviewed annually. Apart from salary payments, other staff benefits include Mandatory Provident Fund, medical insurance, annual double pay and commission. Share options might also be granted to eligible employees of the Group.

By Order of the Board  
**Hon Ming Kong**  
*Chairman*

Hong Kong, 29 December 2003



## CONDENSED CONSOLIDATED INCOME STATEMENT

For the Six Months Ended 30 September 2003

	Notes	Six months ended	
		30 September	2002
		2003	2002
		HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Turnover		70,361	108,659
Cost of sales		<u>(59,892)</u>	<u>(90,321)</u>
Gross profit		10,469	18,338
Other operating income		785	2,903
Selling expenses		(153)	(467)
Administrative expenses		(23,917)	(28,986)
Unrealised holding gain on listed investments in securities		<u>5,213</u>	<u>—</u>
Loss from operations	3	(7,603)	(8,212)
Finance costs		(146)	(7)
Share of results of associates		(151)	(257)
Share of result of a joint venture		<u>195</u>	<u>—</u>
Loss before taxation		(7,705)	(8,476)
Taxation	4	<u>—</u>	<u>(2,047)</u>
Loss before minority interests		(7,705)	(10,523)
Minority interests		<u>13</u>	<u>4</u>
Net loss for the period		<u>(7,692)</u>	<u>(10,519)</u>
Loss per share	6	<u>(3.4) cents</u>	<u>(4.8) cents</u>



## CONDENSED CONSOLIDATED BALANCE SHEET

At 30 September 2003

	Notes	30 September 2003 HK\$'000 (unaudited)	31 March 2003 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	7	10,020	11,638
Goodwill	8	24,566	23,433
Interests in associates		6,205	6,357
Interest in a joint venture		16,650	16,455
Intangible asset		819	1,004
Other assets		205	205
Investments in securities		28,396	23,143
Retention money receivable		4,750	8,996
Pledged bank deposits		2,000	—
		<u>93,611</u>	<u>91,231</u>
Current assets			
Inventories		2,301	5,388
Amounts due from customers for contract works		10,503	4,180
Progress payments receivable	9	23,905	16,480
Retention money receivable		5,176	1,304
Loan receivables	10	44,783	18,192
Amount due from an investee company		5,995	5,995
Amount due from minority interests		490	490
Amounts due from associates		24	—
Accounts receivable	11	8,393	6,474
Prepayments, deposits and other receivables	12	22,411	9,124
Investment deposits	13	10,000	22,000
Taxation recoverable		43	43
Pledged bank deposits		8,194	10,951
Bank balances and cash		6,139	43,490
		<u>148,357</u>	<u>144,111</u>



		<b>30 September</b>	31 March
	<i>Notes</i>	<b>2003</b>	2003
		<b>HK\$'000</b>	HK\$'000
		<b>(unaudited)</b>	(audited)
Current liabilities			
Retention money payable		<b>1,704</b>	939
Accounts payable, other payables and accrued charges	14	<b>46,743</b>	40,260
Amounts due to associates		<b>2,079</b>	2,080
Amount due to a director		<b>403</b>	—
Bills payable		<b>3,140</b>	3,313
Taxation payable		<b>519</b>	465
Obligations under finance leases		<b>429</b>	231
Borrowings	15	<b>8,496</b>	1,077
		<b>63,513</b>	48,365
Net current assets		<b>84,844</b>	95,746
Total assets less current liabilities		<b>178,455</b>	186,977
Minority interests		<b>471</b>	484
Non-current liabilities			
Obligations under finance leases		<b>159</b>	258
Retention money payable		<b>2,195</b>	2,913
		<b>2,354</b>	3,171
Total net assets		<b>175,630</b>	183,322
Capital and reserves			
Share capital		<b>22,380</b>	22,380
Reserves		<b>153,250</b>	160,942
Shareholders' funds		<b>175,630</b>	183,322



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Six Months Ended 30 September 2003

	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Capital reserve HK\$'000	Translation reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
At 1 April 2002	20,000	4,242	13,524	1,848	—	66,170	105,784
Shares issued at a premium	2,380	119,714	—	—	—	—	122,094
Share issuing expenses	—	(4,595)	—	—	—	—	(4,595)
Exchange difference arising on translation of financial statements of operations outside Hong Kong not recognised in the consolidated income statement	—	—	—	—	(37)	—	(37)
Indemnity from former controlling shareholders	—	—	—	—	—	631	631
Net loss for the year	—	—	—	—	—	(40,555)	(40,555)
At 31 March 2003	22,380	119,361	13,524	1,848	(37)	26,246	183,322
<b>Net loss for the period</b>	—	—	—	—	—	<b>(7,692)</b>	<b>(7,692)</b>
<b>At 30 September 2003</b>	<b>22,380</b>	<b>119,361</b>	<b>13,524</b>	<b>1,848</b>	<b>(37)</b>	<b>18,554</b>	<b>175,630</b>
At 1 April 2002	20,000	4,242	13,524	1,848	—	66,170	105,784
Shares issued at premium	2,380	119,714	—	—	—	—	122,094
Share issuing expenses	—	(3,595)	—	—	—	—	(3,595)
Net loss for the period	—	—	—	—	—	(10,519)	(10,519)
At 30 September 2002	22,380	120,361	13,524	1,848	—	55,651	213,764



**CONDENSED CONSOLIDATED CASH FLOW STATEMENT***For the Six Months Ended 30 September 2003*

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
NET CASH USED IN OPERATING ACTIVITIES	<b>(28,967)</b>	(3,844)
NET CASH USED IN INVESTING ACTIVITIES	<b>(15,676)</b>	(172,380)
NET CASH FROM FINANCING	<b>8,364</b>	118,901
NET DECREASE IN CASH AND CASH EQUIVALENTS	<b>(36,279)</b>	(57,323)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	<b>42,413</b>	85,793
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	<b>6,134</b>	28,470
ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	<b>6,139</b>	28,475
Bank overdrafts	<b>(5)</b>	(5)
	<b>6,134</b>	28,470



## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

*For the Six Months Ended 30 September 2003*

### 1. Basis of Preparation and Accounting Policies

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with the Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants ("HKSA").

The condensed financial statements have been prepared under the historical cost convention as modified for the revaluation of certain investment in securities.

The accounting policies adopted in preparation of condensed financial statements are consistent with those followed in the preparation of the Group's annual audited financial statements for the year ended 31 March 2003, except as described below.

#### **Income taxes**

In the current period, the Group has adopted SSAP 12 (Revised) "Income taxes", for the first time, issued by the HKSA. SSAP 12 (Revised) has introduced a new basis of accounting for income taxes (including both current tax and deferred tax).

The principal effect of the adoption of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The adoption of SSAP 12 (Revised) has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.



## 2. Segment Information

For management purposes, the Group is currently organised into four operating divisions — electrical engineering contracting, sale of electrical goods, securities brokerage and internet travel booking services. These divisions are the basis on which the Group reports its primary segment information.

### Business segments

	Electrical engineering contracting <i>HK\$'000</i>	Sale of electrical goods <i>HK\$'000</i>	Securities brokerage <i>HK\$'000</i>	Internet travel booking services <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
For the six months ended 30 September 2003							
TURNOVER							
External sales	56,508	11,590	2,051	10	202	—	70,361
Inter-segment sales	—	3,813	—	—	—	(3,813)	—
Total revenue	<u>56,508</u>	<u>15,403</u>	<u>2,051</u>	<u>10</u>	<u>202</u>	<u>(3,813)</u>	<u>70,361</u>
Inter-segment sales are charged at prevailing market rates.							
RESULTS							
Segment results	<u>260</u>	<u>1,332</u>	<u>(235)</u>	<u>(469)</u>	<u>137</u>	<u>—</u>	1,025
Interest income							462
Other operating income							323
Unrealised holding gain on listed investments in securities							5,213
Unallocated corporate expenses							<u>(14,626)</u>
Loss from operations							(7,603)
Finance costs							(146)
Share of results of associates							(151)
Share of result of a joint venture							<u>195</u>
Loss before taxation							(7,705)
Taxation							<u>—</u>
Loss before minority interests							(7,705)
Minority interests							<u>13</u>
Net loss for the period							<u>(7,692)</u>



## 2. Segment Information (Continued)

### Business segments (Continued)

	Electrical engineering contracting <i>HK\$'000</i>	Sale of electrical goods <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
For the six months ended 30 September 2002					
TURNOVER					
External sales	88,949	19,584	126	—	108,659
Inter-segment sales	—	11,097	—	(11,097)	—
Total revenue	<u>88,949</u>	<u>30,681</u>	<u>126</u>	<u>(11,097)</u>	<u>108,659</u>
Inter-segment sales are charged at prevailing market rates.					
RESULTS					
Segment results	<u>8,812</u>	<u>1,881</u>	<u>(991)</u>	<u>—</u>	9,702
Interest income					626
Other operating income					143
Unallocated corporate expenses					<u>(18,683)</u>
Loss from operations					(8,212)
Finance costs					(7)
Share of results of associates					<u>(257)</u>
Loss before taxation					(8,476)
Taxation					<u>(2,047)</u>
Loss before minority interests					(10,523)
Minority interests					<u>4</u>
Net loss for the period					<u>(10,519)</u>

## 3. Loss from Operations

Six months ended 30 September	
2003	2002
<i>HK\$'000</i>	<i>HK\$'000</i>

Loss from operations has been arrived at after charging:

Depreciation of plant and equipment	1,797	914
Amortisation of goodwill arising on acquisition of subsidiaries included in administrative expenses	743	356
Amortisation of intangible asset included in administrative expenses	185	—
Loss on disposal of property, plant and equipment	<u>80</u>	<u>—</u>



**4. Taxation**

No provision for taxation has been made since the Group does not have any assessable profits.

The charge in 2002 represented provision for Hong Kong Profits Tax of the Company and its subsidiaries for that period. Hong Kong Profits Tax was calculated at 16% of the estimated assessable profit for that period.

No provision for People's Republic of China ("PRC") income tax has been made in respect of the Company's PRC subsidiary as the PRC subsidiary incurred a loss during the both periods.

**5. Dividends**

No dividends were paid during the period. The directors do not recommend the payment of any interim dividend.

**6. Loss Per Share**

The loss per share is calculated based on the loss for the period amounting HK\$7,692,000 (for the six months ended 30 September 2002: loss of HK\$10,519,000) and the weighted average of 223,800,000 shares (217,297,268 shares for the six months ended 30 September 2002) in issue.

No diluted loss per share has been presented as the exercise of share options would result in a decrease in loss per share.

**7. Additions to Property, Plant and Equipment**

During the period, the Group spent approximately HK\$338,000 (approximately HK\$10,276,000 for the six months ended 30 September 2002) on property, plant and equipment.

**8. Goodwill**

	<b>THE GROUP</b> <i>HK\$'000</i>
<b>COST</b>	
At 1 April 2003	25,612
Arising on acquisition of a subsidiary during the period	1,876
At 30 September 2003	27,488
<b>AMORTISATION AND IMPAIRMENT</b>	
At 1 April 2003	2,179
Charge for the period	743
At 30 September 2003	2,922
<b>NET BOOK VALUES</b>	
At 30 September 2003	24,566
At 31 March 2003	23,433

The amortisation period adopted for goodwill ranges from 18 to 20 years.

During the period, the Group acquired the entire interest in a subsidiary incorporated in Hong Kong for a consideration of HK\$2,000,000. The subsidiary is engaged in provision of company secretarial services.



## 9. Progress Payments Receivable

The aged analysis of progress payments receivable is as follows:

	<b>30 September 2003 HK\$'000</b>	31 March 2003 HK\$'000
0 to 30 days	19,426	12,773
31 to 60 days	1,654	179
61 to 90 days	17	109
91 to 180 days	—	297
More than 180 days	2,808	3,122
	<u>23,905</u>	<u>16,480</u>

## 10. Loan Receivables

	<b>30 September 2003 HK\$'000</b>	31 March 2003 HK\$'000
Loan receivables	26,000	9,444
Securities margin accounts	18,783	8,748
	<u>44,783</u>	<u>18,192</u>

## 11. Accounts Receivable

The credit period allowed by the Group to its customers is normally 90 days.

The aged analysis of accounts receivable is as follows:

	<b>30 September 2003 HK\$'000</b>	31 March 2003 HK\$'000
0 to 30 days	3,537	2,930
31 to 60 days	1,936	1,203
61 to 90 days	1,062	1,469
91 to 180 days	1,508	427
More than 180 days	350	445
	<u>8,393</u>	<u>6,474</u>

## 12. Prepayments, Deposits and Other Receivables

Included in the prepayments, deposits and other receivables were deposits of HK\$12,250,000 (31.3.2003: nil) which were paid during the period for potential investments.



**13. Investment Deposits**

During the period, the Group had recovered, together with interest at 1.5% per annum, deposits of HK\$12,000,000 paid for proposed investment in not more than 24.9% of the enlarged equity interest in a PRC company.

**14. Accounts Payable, Other Payables and Accrued Charges**

Included in accounts payable, other payables and accrued charges are trade creditors amounting to HK\$24,076,000 (At 31 March 2003: HK\$8,002,000). The aged analysis of trade creditors is as follows:

	<b>30 September 2003 HK\$'000</b>	31 March 2003 HK\$'000
0 to 30 days	12,207	3,531
31 to 60 days	3,553	1,556
61 to 90 days	3,240	1,085
91 to 180 days	526	810
More than 180 days	4,550	1,020
	<u>24,076</u>	<u>8,002</u>

**15. Borrowings**

	<b>30 September 2003 HK\$'000</b>	31 March 2003 HK\$'000
Bank overdrafts	5	1,077
Bank loans	8,491	—
	<u>8,496</u>	<u>1,077</u>
Secured	8,491	827
Unsecured	5	250
	<u>8,496</u>	<u>1,077</u>



## 16. Acquisition of a Subsidiary

On 2 June 2003, the Group acquired 100% of the issued share capital of MindGenius Secretarial Services Limited for cash consideration of HK\$2,000,000. This transaction has been accounted for using the purchase method of accounting.

The effect of the acquisition is summarised as follows:

	<i>HK\$'000</i>
Net assets acquired	124
Goodwill arising on acquisition	<u>1,876</u>
Cash consideration	<u><u>2,000</u></u>
Net cash outflow arising on acquisition	
Cash consideration	2,000
Bank balances and cash acquired	<u>(35)</u>
	<u><u>1,965</u></u>

MindGenius Secretarial Services Limited did not make significant contribution to turnover and results of the Group during the period.

## 17. Contingent Liabilities

As at 30 September 2003, the Group had contingent liabilities in respect of guarantee executed in favour of a bank for its banking facilities granted to the customers of the Group in relation to the securities brokerage business. There was no such guarantee as at 30 September 2002.

## 18. Capital Commitments

In September 2003, the Group entered into a legally-binding letter of intent with independent third parties relating to the acquisition of the entire interest of a company incorporated in the British Virgin Islands ("Proposed Investment"). The Proposed Investment has no assets and business operations and is a special purpose vehicle for entering into the co-operation agreement with a PRC party which is a specialist in waste processing and disposal in the PRC. Pursuant to the co-operation agreement, the Proposed Investment and the PRC party agreed to form joint ventures in exploring the waste disposal market in the PRC. Under the letter of intent, the Group is entitled to carry out due diligence review and valuation on the potential waste disposal business of the Proposed Investment within three months from the date of letter of intent.



**19. Post Balance Sheet Event**

- (a) On 7 October 2003, the Group, pursuant to the letter of intent entered in September 2003, entered into a sale and purchase agreement with independent third parties to acquire the Proposed Investment for an aggregate consideration of not more than HK\$45,400,000. The completion of the sale and purchase agreement is conditional on, among other things, the formation of the first joint venture enterprise to be engaged in the business of the development, construction and management of the waste incineration and processing is completed and the approval from the shareholders of the Company approving the issue of allotment of aggregate of 30,000,000 shares of the Company. Under the sale and purchase agreement, the consideration of not more than HK\$45,400,000 shall be satisfied, (a) as to HK\$1 million to be paid by the Group in cash on completion of the acquisition of the Proposed Investment; (b) as to HK\$3.54 million by the issue and allotment of 3,000,000 shares of the Company at the price of HK\$1.18 per share on completion of the acquisition of the Proposed Investment; and (c) as to the balance of not more than HK\$40,860,000, the Group shall, during the period of three years from the date of completion of the acquisition, pay to the vendors a sum of HK\$4.54 million, which shall be satisfied as to HK\$1 million in cash and as to HK\$3.54 million by shares of the Company within a period of 10 days after the establishment of each subsequent joint venture enterprise for the waste incineration and processing business and the fulfillment of other related conditions. On 23 December 2003, the Group entered into a co-operation agreement with the holding company of the PRC party which is a specialist in waste processing and disposal in the PRC as mentioned under Capital Commitments above relating to the formation of a joint venture for the waste incineration and processing business project in Dongguan, the PRC. The registered capital of the joint venture will be RMB 100 million against which RMB 90 million, representing 90% interest in the joint venture is attributable to the Group.
- (b) Pursuant to the placing agreement entered on 19 September 2003, the Company, on 21 October 2003, issued and allotted 44,760,000 shares of HK\$0.10 each at a price of HK\$1.18 per share to independent investors. The net proceeds of approximately HK\$51.1 million will be used for making of future investments, inter alia, the acquisition of the Proposed Investment. In the event that no appropriate investment opportunity is identified, the net proceeds will be retained by the Group for general working capital purpose. The shares issued rank pari passu in all respects with the then existing shares in issue in all respects.
- (c) On 27 November 2003, the Company entered into a conditional placing agreement with Kingston Securities Limited (the "Placing Agent") to place 53,712,000 shares of HK\$0.10 each at a price of HK\$1.30 per share to independent investors. The completion of the placing was originally expected to be completed on or before 24 December 2003. The net proceeds of approximately HK\$68.0 million will be used for making future investments in waste incineration and processing business projects in the PRC, including the formation of the relevant joint venture enterprises. In the event that the formation of the relevant joint venture enterprises does not proceed or no appropriate investment opportunity is identified by the Group, the net proceeds will be retained for general capital purpose. On 23 December 2003, the Company and the Placing Agent entered into a supplement agreement pursuant to which the completion date of the Placing will be postponed to 21 January 2004.
- (d) On 23 December 2003, the Group entered into a framework agreement with another independent third party in relation to the acquisition of an interest in a PRC enterprise engaged in the business of waste incineration and processing for generation of electricity ("Proposed Acquisition") in Hangzhou, the PRC. The acquisition of the interest in Proposed Acquisition is subject to the completion of a due diligence exercise within three months from the date of the framework agreement.