# Management Discussion and Analysis

## REVIEW OF OPERATIONS

During the year, the Group recorded an audited loss attributable to shareholders of approximately HK$57,198,000 (2003: loss of approximately HK$40,555,000). Turnover of the year was HK$166,243,000, representing a decrease of 16.8% as compared to the corresponding period last year. The decrease was mainly attributable to the local sluggish construction industry as well as the structural changes in government housing policies, bringing public housing projects to a halt. The increase in losses of the year mainly came from the provision for non-core businesses and the share of losses of a joint venture. Recognising the importance of effective cost control during the period of transformation, the management implemented various cost-cutting measures during the year, resulting in a 20.1% drop in administrative expenses.

## ELECTRICAL ENGINEERING CONTRACTING BUSINESS

During the year, the Group principally continued its outstanding work in progress. The Group's electrical engineering contracting business generated a turnover of approximately HK$104,812,000, representing a decline of 37.9% from HK$168,749,000 last year, of which, turnover from electrical engineering contracts of the public sector accounted for 16.2% (2003: 53%).

The term contract for electrical maintenance work for Hong Kong Housing Authority ("HKHA") and the electrical engineering work for Tsz Oi Estate, Shek Lei Estate Phase 8 and Central Street Market project were completed during the year under review. As at 31 March 2004, the Group's electrical engineering contracts on hand amounted to approximately HK$60,686,000.

As the number of public housing projects dropped dramatically during the year, the Group's electrical engineering division mainly focused on school improvement programmes, electrical installation work for Tin Shui Wai Area 102 Phase 3, Kwai Chung Phase 7 and Tung Chung Area 31 Phase 3 & 5, electrical maintenance work for HKHA (9 districts) and various electrical maintenance work.

## ELECTRICAL MATERIALS & COMPONENT TRADING BUSINESS

Given the unruly damage caused by the continued unfavourable market condition of local construction industry coupled with the halt of public housing projects resulting from the structural changes in government housing policies, the external sales from electrical trading for the year decreased by 33.5% to approximately HK$19,782,000 from approximately HK$29,741,000 of the corresponding period last year. Despite this, the Group is actively pursuing business opportunities in Mainland China and overseas markets. During the year, the Group's export sales of electrical equipment surged by approximately 148.1%.

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In light of its business scale-down and its low inventory policy, the Group's inventory in the year decreased significantly by 78.0% as compared with last year. Under the low inventory policy, goods are immediately delivered to customers' work sites upon receipt from suppliers. Purchase orders are usually placed to suppliers in advance but the Group will not request suppliers' delivery until customers confirm their sales orders.

## SECURITIES BROKERAGE BUSINESS

Hong Tong Hai Securities Limited ("HTHS") and Hong Tong Hai Consultants Limited are engaged in corporate and business consultancy, direct investment and securities business. 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 larger fluctuation in recent years, it is believed that the downturn is cyclical in nature. Hong Kong has irreplaceable advantages that appeal strongly to the 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 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 the Hong Kong's financial market in the near future. There will be substantial growth potentials for the Group's securities business. In fact, the business of HTHS has improved along with the upturn of the Hong Kong stock market, with external sales increasing to this year's HK$6,360,000 from HK$1,036,000 last year, and has contributed a positive return to the Group.

## SEA FREIGHT FORWARDING SERVICES BUSINESS

The implementation of Closer Economic Partnership Arrangement (CEPA) has strengthened Hong Kong's role as the gateway to Mainland China and facilitated trading between the Straits. Taking advantage of this, the management has commenced sea freight forwarding services business in China, Hong Kong and Taiwan, recording a satisfactory turnover of over HK$34 million, and has already achieved breakeven.

## OTHER BUSINESSES

The Group recorded an unrealised gain of approximately HK$7.5 million during the year for the acquisition of approximately 2.6% equity interests of South Sea Holding Company Limited, a listed company in Hong Kong. The results of a subsidiary in Beijing which is engaged in internet travel booking services business has dropped substantially due to the outbreak of Severe Acute Respiratory Syndrome and the keen competition amongst the industry. The Group has made a provision of loss for the goodwill of approximately HK$22 million on this investment accordingly. At the same time, another subsidiary which is engaged in credit rating business has recorded a loss of approximately HK$13.8 million.

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## FINANCIAL REVIEW & ANALYSIS

### Liquidity, Financial Resources and Gearing

The Group's total current assets and current liabilities were approximately HK$208,779,000 (as at 31 March 2003: HK$144,111,000) and HK$62,239,000 (as at 31 March 2003: HK$48,365,000) respectively as at 31 March 2004 while the current ratio was about 3.35 times (as at 31 March 2003: 2.98 times). As at 31 March 2004, the Group's aggregate cash amounted to HK$41,095,000 (as at 31 March 2003: HK$54,441,000), representing approximately 19.7% (as at 31 March 2003: 37.8% ) of total current assets. The Directors believe that the Group has adequate funds for business operation and maintains a high liquidity.

As shown in the Group's consolidated balance sheet as at 31 March 2004, consolidated shareholders' funds amounted to approximately HK$219,400,000 (as at 31 March 2003: HK$183,322,000); whereas the Group's total borrowing was about HK$4,881,000 (as at 31 March 2003: HK$1,566,000) only, which mainly comprised of overdrafts and finance lease obligations. Bank overdrafts carry interests calculated on the prime lending rate in Hong Kong whereas finance charges are fixed on the date the finance leases are entered. The increase in bank overdrafts this year was mainly attributed to the upsurge of margin securities business.

As at 31 March 2004, the gearing ratio, defined as total debts over total assets, was approximately 1.72% (as at 31 March 2003: 0.7%). The increase in the gearing ratio was mainly due to the increase in bank overdrafts arising from the commencement of the Company's margin securities business.

### Placing of New Shares and Use of Proceeds

On 19 September 2003, the Company entered into an agreement with an independent agent for the placement of 44,760,000 new shares, 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 proceeds from the abovementioned placing of shares are mainly for investing in the Dongguan Electric Factory in the PRC and used as general working capital for the Group. On 17 February 2004, the Company entered into an agreement with an independent agent for the placement of 53,712,000 new shares, and successfully raised approximately HK$41,600,000 (net) through the placement of all shares at a consideration of HK$0.80 per share on 5 March 2004. The proceeds from the second placing of shares are mainly for its investment in the development of Dongguan Electric Factory in the PRC.

### Major Investments

In June 2003, the Group entered into a sale and purchase agreement to acquire 100% effective 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 the provision of company secretarial services to external customers. The subsidiary contributed insignificant turnover and results to the Group during the period.

On 23 December 2003, the Group entered into a co-operation agreement with 中科實業集團（控股）公司（「中科集團」）relating to the formation of a joint venture. The registered capital of the joint venture will be RMB100 million, among which RMB90 million, representing 90% interest in the joint venture, will be contributed by Group. On 14 May 2004, the equity proportions between the Group and 中科集團 were revised to 51% and 49% respectively.

On 29 October 2003, the Group acquired the development rights of two pieces of land in the New Territories at HK$3,000,000. On 29 March 2004, the Group entered into a conditional sale and purchase agreement with an independent third party, under which the Group purchased 40% interest equity of an investment company at HK$28,000,000. The acquired company holds 100% effective interests of an enterprise engaged in container depots and the provision of logistics service in Shanghai, the PRC.

### 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. As at 31 March 2004, the Group had no significant outstanding forward foreign exchange contracts on hand.

### Contingent Liabilities

Detail of the contingent liabilities and capital commitments of the Group are set out in notes 40 and 41 to the financial statements of the Company.

### Pledge of Assets

Details of the charge of Group's assets are out in note 45 to the financial statement of the Company.

## PROSPECTS

The deteriorating waste problem in Mainland China cities has already aroused serious concerns of all levels of the Mainland Chinese Government. As shown by statistics, medium to large cities in the Mainland China are producing 100 million tons of waste per year, and a large city of a size such as Guangzhou is creating 6,000 tons of waste each day. Among over 670 medium to large cities in the whole nation, approximately 30% of them are trapped in wastes. As such, the Group considers that the above situation 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 group member of 中科集團, 北京中科通用能源環保有限責任公司 ("BGEE"), and will adopt the "Circulating Fluidized Bed (CFB) Boiler Combustion Technology" in the Dongguan Electric Factory.

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The total investment of the Dongguan Electric Factory amounts to about RMB328 million, about 30% of which will be provided by the Group and 中科集團 in accordance with their proportionate equity interests in the Dongguan Electric Factory, while the remaining 70% will be raised externally through financing and other channels. The plant is currently undergoing pre-operational work, such as site formation and registration etc., and it is expected to commence trial running by the end of 2005 at the earliest. Upon official commencement of production, the plant will be able to process 1,000 tons of waste per day, resolving the urban waste problem in the Dongguan city. On the other hand, 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. As such, the major income of the project will be from two sources, one is the urban waste treatment fees payable by the Dongguan Municipal Government to the plant calculated on a treatment volume basis; and the other is the income generated from electricity put onto power network.

Due to the changes in public housing and the infrastructure policies during recent years, the demand for the Group's electricity and maintenance projects is relatively weak. The Group has therefore been exploring opportunities in the residential buildings and material supply markets in the Mainland China. In fact, equipped with years of experience in the industry, the Group is extensively familiar 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 development in property market, which has seen many new buildings sprouting like mushrooms. In view of this, the Group has strived to explore opportunities in the Mainland China in recent years.

In respect of the Mainland China market, the Group is committed to establish a vertically integrated structure by participating in the re-export business of electrical goods from the Mainland China and Hong Kong to Europe and Asia, as well as to continue to actively pursue opportunities to secure distribution rights in the Mainland China. The export trading of the Group has in fact already seen satisfactory increase.

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 track to improvement. In order to maintain its competitiveness in the market, the Group has to equip itself with the capability to provide diversified and comprehensive services. To this end, the Group has already commenced its securities business through HTHS. With the establishment of HTHS, the Group aims to capitalise on the opportunities of undertaking a range of businesses, which in turn will enhance its flexibility in related businesses. However, the Group does not intend to overemphasize on its securities brokerage business.

The swift growth in the PRC economy, the implementation of CEPA and the launch of the "9+2" Pan-Pearl River Delta Policy have enhanced the trading and business relationships with the PRC. In view of this, the Group is confident with its in logistics business development in the PRC, Hong Kong and Taiwan. Therefore, we expect our Group's sea freight forwarding services business will be stable increasing.

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Apart from the existing core businesses of electrical engineering and electrical equipment trading, the Group also diversified into waste combustion electric power business, and has been actively identifying some emerging industries with less competition that generate stable revenue as its long-term investments.

## 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 since its listing on the Stock Exchange on 3 May 2001.

### Audit Committee

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and has discussed auditing, internal control and financial reporting processes including the review of the audited financial statements for the year ended 31 March 2004.

### Employees and Remuneration Policy

As at 31 March 2004, the total number of staff in the Group mainly employed in Hong Kong was over 60 (2002: 75). 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.