Management Discussion and Analysis

RESULTS

For the year ended 31 March 2004, the Group's turnover amounted to approximately HK$228,507,000, representing an increase of about 13% compared to HK$201,852,000 in last year. The Group recorded a loss of approximately HK$4,355,000, compared to a profit of HK$8,070,000 (restated) in 2003.

BUSINESS REVIEW

For the year under review, the Group faced a difficult and challenging business environment. The outbreak of Severe Acute Respiratory Syndrome ("SARS") and the Iraq War in the first half year of 2003 had created an unfavorable operating environment to the Group.

Despite these unfavorable factors, the Group recorded a turnover of approximately HK$228,507,000 for the year under review, representing an increase of approximately 13% over the previous year. Even though the Group had achieved a growth of sales, the Group's gross margin was decreased. As mentioned in the interim report, the Group's purchases were mainly sourced from Europe, the continuing strong Euro against United States Dollars tremendously increased our cost of sales for the year under review. As a result, the Group's gross profit margin decreased from approximately 27% to 13% and recorded a loss attributable to shareholders of approximately HK$4,355,000.

During the year under review, the turnover of sales and distribution recorded an increase of approximately 22% while the turnover of provision of engineering services decreased by approximately 16% from the previous year. The increase in sales and distribution was mainly due to some large scale projects of railway maintenance equipment and airport ground support equipment were completed during the year. Although the Group had recorded satisfactory performance in sales, the gross profit margin was drastically reduced, due mainly to the effect of the strong Euro. The effect of the strong Euro was that it drove upwards our cost of sales and seriously reduced our margins, which we were forced to reduce to keep our products and components purchased in Euro competitively priced against products and components from other countries, selling in weaker currencies, such as United States dollars. The Group had entered into certain derivative contracts to hedge its exposure to fluctuations in foreign currencies. These instruments could protect our gross profit margins from further decrease. However, it could not restore our profit margins to the level before the appreciation of Euro.

The Group continued to maintain its cost control measures. During the year under review, administrative expenses for the Group decreased by approximately 8.5% compared to previous year. This was mainly due to the combination of the Group's two offices in Hong Kong in August 2003.

Through the interest in an associate, the Group indirectly owned 10% interest in a joint venture which was established for carrying business in the acquisition and holding a property situated in Tsing Yi, New Territories. In view of the booming of property market during the year under review, the Group disposed of its interest in an associate on 4 February 2004. As a result of this disposal, the Group had recorded a gain of approximately HK$727,000.

BUSINESS REVIEW *(Continued)*

The Group's wholly owned subsidiary in Zhuhai, the PRC was well positioned to benefit from the PRC's growth. In 30 October 2003, this subsidiary obtained ISO9001: 2000. The certification is part of the Group's long term plan to strengthen the management and the assembly process operation.

PROSPECTS

Hong Kong retail sales in the early months of 2004 are robust and will continue to drive the economy up in the coming months. Business environment will become more favourable in Hong Kong and we expect that it will benefit the Group's business in Hong Kong.

Looking ahead, we are still confident of and optimistic about our results for the coming year. Due to the continued growth in the PRC's economy, the Group believes that the PRC market will offer tremendous potential. In addition, the Group has recently formed a new subsidiary company with a European company to actively pursue the technology transfer to China of some advanced European engine technologies and environmental protection technologies and through this business cooperation, we will capture the appropriate investment opportunities that can enhance the Group's business.

APPRECIATION

The directors and management would like to thank all staff for their contributions to the Group during the year.

EMPLOYEES AND REMUNERATION POLICY

As at 31 March 2004, the Group employed 111 (2003: 130) staff in Hong Kong and the PRC. The Group remunerates its employees based on their performance, work experience and the prevailing market price. The remuneration packages include basic salary, double pay, commission, insurance and mandatory provident fund. Share options might also be granted to eligible employees of the Group. The packages are reviewed annually by the management.

LIQUIDITY AND FINANCIAL RESOURCES

Capital structure

As at 31 March 2004, the Group had total assets of approximately HK$195,425,000 (2003 (restated): HK$212,042,000) which were financed by liabilities of approximately HK$105,799,000 (2003 (restated): HK$116,322,000) and equity of approximately HK$89,037,000 (2003 (restated): HK$95,720,000). The Group had current assets of approximately HK$155,675,000 (2003: HK$170,704,000) and current liabilities of approximately HK$95,924,000 (2003: HK$106,045,000).

LIQUIDITY AND FINANCIAL RESOURCES *(Continued)*

Liquidity

As at 31 March 2004, the Group had cash and bank balances including pledged fixed deposits totalling approximately HK$70,441,000 (2003: HK$34,714,000). The Group's cash and bank balances were mainly denominated in United States dollars, Euro and Hong Kong dollars. The Group generally finances its operations with internally generated resources and banking facilities.

The Group's bank borrowings amounted to approximately HK$24,161,000 (2003: HK$41,533,000). Most of these bank borrowings were denominated in Hong Kong dollars, United States dollars and Euro bearing floating interest rates. As at 31 March 2004, the current ratio was 1.62 (2003: 1.61), calculated on the basis of current assets over current liabilities and the gearing ratio, representing a ratio of total borrowings to total assets, was 13% (2003: 20%).

Exchange exposure and hedging

The Group mainly earns revenue in the currencies of United States dollars, Renminbi and Hong Kong dollars while the costs are substantially denominated in Euro. As such, the Group is subject to foreign currency exposure. 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 monitors the risks in foreign exchange and hedges its foreign exchange exposure by way of placing forward foreign exchange contracts. As at 31 March 2004, the Group had total outstanding forward foreign exchange contracts amounting to approximately HK$45,063,000 (2003: HK$50,576,000).

Charge on assets

As at 31 March 2004, the Group had pledged its land and buildings situated in Hong Kong with an aggregate net book value amounting to HK$19,100,000 (2003: HK$18,861,000) and bank deposits of HK$10,885,000 (2003: HK$12,777,000) to secure banking facilities granted to the Group.

USE OF PROCEEDS

The Group raised approximately HK$32 million, net of related expenses, from initial public offering of the Company on 28 March 2002. Of these proceeds, an aggregate amount of about HK$24 million were applied in accordance with the prospectus dated 19 March 2002 and the announcements in relation to change part of the use of proceeds dated 24 January 2003 and dated 13 February 2004. The unused net proceeds of approximately HK$3 million and HK$5 million will apply respectively as follows:–

– using for a wholly foreign owned enterprise in Zhuhai 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; and

– construction of a processing plant in Zhuhai for assembling railway maintenance equipment like welding machine and grinding stone.

The unused net proceeds are currently placed on short term deposits with various banks in Hong Kong.