Management Discussion and Analysis

During the year, the Group recorded an audited loss attributable to shareholders of approximately HK$94,376,000 (2004: loss of approximately HK$57,198,000). Turnover of the year was HK$102,427,000, representing a decrease of 38.4% as compared to the corresponding period of last year. The decrease was mainly attributable to the decrease of the expense of government public works as well as the structural changes in government housing policies, bringing the construction of public housing to a halt. The increase in losses of the year mainly attributes to the provision for non-core business, the share of losses of a joint venture and the provision of impairment of goodwill, accounts receivable and inventories. Recognising the importance of effective cost control during the period of diversification of business, management will continue to enhance the implementation of various cost-cutting measures.

Electrical Engineering Contracting Business

During the year, the Group continued with the work in progress without any addition of new projects. The Group's electrical engineering contracting business generated a turnover of HK$43,307,000, representing a decline of 58.7% from HK$104,812,000 last year. The turnover of engineering contracting business represents 42.3% of the total turnover (2004: 63%).

The term contract for electrical maintenance work for Hong Kong Housing Authority ("HKHA") and the electrical engineering work for Ho Man Tin South Estate Phase 3, certain school improvement projects and Tin Shui Wai Area 102-phase 3 were completed during the year under review. As at 31 March 2005, the Group's outstanding electrical engineering contracts on hand amounted to approximately HK$21,365,000.

With the halt of constructing public housing and substantial decline in the number of public housing projects, the Group's electrical engineering contracting division mainly focused on school improvement programmes, electrical installation work for Tung Chung Area 30 and 31 Phase 3&5, various electrical maintenance work for HKHA (Northern District 1) and Lei Cheng Uk Estate project. It is believed that the electrical engineering contracting business will continue to shrink in the coming year.

Electrical Materials and Components Trading Business

Given the continued unfavourable market condition of local construction industry coupled with the halt of public housing projects resulting from structural changes in government housing policies, the external sales from electrical materials and components trading of the Group decreased by 76.7% to approximately HK$4,616,000 from approximately HK$19,782,000 in the corresponding period of last year. In addition, with the import of electrical appliances from the Mainland China, it is believed that this situation will not be improved in short-term.

Management Discussion and Analysis

Securities Brokerage and Financing Business

Hong Tong Hai Securities Limited ("HTHS") and Hong Tong Hai Capital Limited are mainly engaged in direct investment, securities brokerage, assets management and external financing business. Although the Hong Kong stock market has shown signs of recovery and is active recently, the business will hardly achieve surprisingly good development in short-term under keen competition resulting from the elimination of the minimum brokerage fee. Incomes from securities brokerage and financing business of the Group decreased to HK$5,458,000 from HK$6,360,000 in the corresponding period of last year, representing a decrease of approximately 14.2%. However, the board of directors believes that the financial sector will play a more important role in Hong Kong amidst the transformation of the economy. 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 stock market. The fact that China Ping An Insurance（中國平安保險）is allowed to invest in overseas stock markets is also a good news. It is believed that the Group's securities brokerage, assets management and external financing business will have substantial growth potentials. In the middle of the year, HTHS successfully applied for Asset Management License（資產管理牌照）from Hong Kong Securities and Futures Commission, which is expected to benefit our securities business.

Sea Freight Forwarding Services Business

The implementation of CEPA has strengthened Hong Kong's role as the gateway to Mainland China and facilitated the trading between the Straits. Taking advantage of this, the management has commenced sea freight forwarding services business in China, Hong Kong, Taiwan and Asia in the second half of 2003 and registered a significant turnover right after. As at the end of the year, the Group recorded a turnover of HK$49,010,000 of sea freight forwarding services, representing an increase of approximately 41.5% from HK$34,637,000 of the corresponding period of last year. The result is remarkable.

Other Businesses

The Group recorded a realised loss of approximately HK$4,753,000 during the year from the disposal of approximately 2.6% equity interests in South Sea Holding Company Limited, a listed company in Hong Kong. However, taking into account the accumulated unrealised gain of HK$10,291,000 included in the year ended 31 March 2004, the effective investment in South Sea Holding Company Limited contributed a profit of HK$5,538,000 to the Group. Another joint venture entity which is engaged in credit rating business in Beijing also recorded a loss of approximately HK$2,600,000 and the Group had to share the loss of HK$3,596,000 of associated companies. Under the new accounting rules and based on the principle of prudence, the Group has made provision of HK$7,737,000 for impairment of goodwill. In the meantime, the Group has made provision of approximately HK$47,731,000 for impairment of certain long-term investments, accounts receivable and inventories.

Management Discussion and Analysis

Financial Review and Analysis

Liquidity, Financial Resources and Gearing

The Group's total current assets and current liabilities were approximately HK118,585,000 (as at 31 March 2004: HK$208,779,000) and HK$53,042,000 (as at 31 March 2004: HK$62,239,000) respectively, as at 31 March 2005, while the current ratio was about 2.24 times (as at 31 March 2004: 3.35 times). As at 31 March 2005, the Group's aggregate cash balance amounted to HK$13,303,000 (as at 31 March 2004: HK$41,095,000), representing approximately 11.2% (as at 31 March 2004: 19.7%) of total current assets. The board of directors believes that the Group has adequate funds for the business operation and was maintained a good liquidity position.

As shown in the Group's consolidated balance sheet as at 31 March 2005, consolidated shareholders' funds amounted to approximately HK$139,937,000 (as at 31 March 2004: HK$219,400,000); whereas the Group's total borrowing was about HK$10,723,000 (as at 31 March 2004: HK$4,881,000) only, which mainly comprised of Hong Kong dollar overdrafts, borrowings and finance lease obligations. Bank overdrafts carry interests calculated on the prime lending rate whereas finance charges are fixed on the date the finance leases are entered. Comparing the stock in the corresponding period of last year, the stock as at the end of this period decreased 60.2%, which was mainly attributed to the shrinkage of the electrical materials and components trading business, which led to the reduction of the Group's inventories.

As at 31 March 2005, the gearing ratio, defined as total debts over total assets, was approximately 4.38% (as at 31 March 2004: 1.72%). The increase in the gearing ratio was mainly due to the bank borrowings arising from the Group's margin securities business.

Placing of New Shares and Use of Proceeds

On 4 November 2004, the Company entered into an agreement with an independent agent for the placement of 64,454,000 new shares. All new shares of HK$0.10 each share were placed to independent investors at the placing price of HK$0.23 each share. The proceeds from the abovementioned placing of shares has mainly been used for identifying the new investment projects in the China and as the Group's general working capital.

On 22 March 2005, the Company entered into an agreement of placing with an independent agent for the placement of 77,344,000 new shares. All new shares of HK$0.40 each share were placed conditionally on a fully underwritten basis. The proceeds from the abovementioned placing of shares will be mainly used for the payment of the acquisition of a company engaged in the distribution of medicine and investment in the China, with no more than 49% interest and related expenses. If the above acquisition does not proceed, the funds from the placing of new shares will be used as general working capital. The above mentioned placing of shares has been completed in April 2005.

Management Discussion and Analysis

Major Investments

The Group entered into a co-operation agreement with China Sciences Enterprise Group (Holding) Corporation （中科實業集團（控股）公司）(hereinafter refer as to the "China Sciences Group"（中科集團） relating to the formation of a joint venture "(Dongguan China Sciences Conservational Power Co., Ltd.) 東莞中科環保電力有限公司" (hereinafter refer as to the "Dongguan CSCP"). The registered capital of this joint venture is RMB110 million, among which RMB56.1 million, representing 51% interest in the joint venture, will be contributed by the Group. The joint venture was formally established on 5 November 2004 for 25 years until 4 November 2029. On 24 November 2004, all parties involved had already injected their registered capital in cash to the joint venture in accordance with their proportion to the registered capital. The Group disposed of its equity interest in this joint venture to another listed connected company, China Sciences Conservational Power Limited ("CSCP") at a consideration of 100,000,000 CSCP's Convertible Preference Shares ("Preference Share") in July 2005.

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 with an account receivable at HK$28,000,000. The acquired company holds 89% effective interests of an enterprise engaged in container depots and the provision of logistic services in Shanghai, the PRC. The acquisition was completed on 3 April 2004.

On 2 June 2004, the Group further acquired the remaining 49% of the issued share capital of a subsidiary, namely, TopEast Engineering Limited, for a cash consideration of HK$49,000. On 9 September 2004, the Group further acquired the remaining 49% of the issued share capital of another subsidiary, namely Country Super Limited, for a cash consideration of HK$490,000. During the year, a subsidiary, Honsda (HK) Electronics Limited, commenced household electrical appliances trading business and has contributed insignificant turnover and results to the Group.

Foreign Exchange Management

Since the Company's shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Group basically has not changed its foreign exchange management policy. The risks in foreign exchange within this year were reduced accordingly because of the decrease in overseas purchases at times of reduced trade activities. As at 31 March 2005, the Group had no significant outstanding forward foreign exchange contracts on hand.

Contingent Liabilities

As at the balance sheet date, the Group had no material contingent liabilities for both years.

Pledge of Assets

At 31 March 2005, the Group had pledged bank deposits of approximately HK$2 million (2004: HK$4 million) to secure certain bank facilities available to the Group.

In addition, the Group's overdrafts of HK$8,490,000 as at the balance sheet date were secured on the securities held by the Group on behalf of its customers.

Prospects

The deteriorating waste problem in Mainland China cities has already caused 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 of this kind in the whole nation, approximately 30% of them are trapped in wastes. As such, the Group considers that the above situation represents a new investment opportunity. Apart from going on with its existing electrical engineering business, the Group is determined to develop waste incineration processing business in the Mainland China. As a result, the Group and China Sciences Group established Dongguan CSCP in Dongguan, Guangdong, which mainly engages in generating electricity through waste combustion.

The total investment of Dongguan CSCP amounts to about RMB328 million, about 33% of which will be provided by the Group and China Sciences Group in accordance with their proportionate equity interests in the plant, while the remaining 66% will be raised externally through financing and other channels. Dongguan CSCP was established on 5 November 2004 with the injection of the registered capital completed on 29 November 2004 and it is expected to commence trial running by the fourth quarter 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 240 million kWh per year. The total operation life span of Dongguan CSCP is 25 years.

Management Discussion and Analysis

In July 2005, the Group, based on the grounds stated below, disposed of its 51% equity interest in Dongguan CSCP in consideration of 100,000,000 Preference Shares of CSCP which is equivalent to HK$76 million. Apart from the disposal of the 51% equity interest in Dongguan CSCP, the Group has no intention to directly invest in any other incineration and processing business. As stated in the announcement published by CSCP, the company was setting up joint ventures in Guilin and Meizhou, the PRC to carry on waste incineration and processing business, the board was of the view that, in the event of the Company exercises the conversion right attaching to the Preference Shares and the new options, the Group would be able to continue to have an exposure to the waste incineration and processing business through its interest in the shares in CSCP and to enjoy potential returns from CSCP.

The Preference Shares bear a fixed preferential dividend at the rate of 3% per annum. Therefore, the directors consider that the holding of the Preference Shares could provide the Group with an opportunity to enjoy a stable dividend return with redemption in full amount as well as to capture any potential returns from the businesses of CSCP by converting the Preference Shares into ordinary shares in CSCP and exercising the new options. The Group is able to increase its share of return from the businesses of CSCP by increasing its interest in CSCP via the exercise of the new options at the current share price of CSCP during the three-year option period.

Hong Kong has a brighter prospect in sight, while the pressure for deflation is decreasing. As such, the Hong Kong economy is on the track to recovery. 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 brokerage, financing, corporate consultant, asset management and company secretary business through certain subsidiaries. The directors of the Company believe, the Group can capitalise on the opportunities of undertaking a range of businesses, which in turn will enhance greater flexibility in related businesses. However, the Group does not intend to over-emphasise on those business.

The swift growth in the China 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 China. In view of this, the Group is confident with its in logistics business development in China, Hong Kong, Taiwan and other Asia countries. Therefore, we expect our Group's sea freight forwarding services business will be stable increasing.

Management Discussion and Analysis

Due to the changes in public housing and the infrastructure policies in recent years, the demand for the Group's electrical equipment trading are relatively weak and it is expected that this situation will continue. Meanwhile, the Mainland China has recorded tremendous progress with giant strides. In view of this, the Group has therefore been exploring new investment opportunities in the Mainland China. Apart from the existing businesses of electrical engineering and electrical equipment trading, the Group also diversified into waste combustion electric power business and sea freight forwarding services business, and has been actively identifying some emerging investments, such as the pharmaceutical industry, that generate stable revenue as its long-term investments in China.

As mentioned in the Chairman's Statement, the board of directors holds a positive view on the investment in the pharmaceutical industry in China and has signed the letters of intent with two companies which are engaged in the distribution of medicine and hospital management software development in December 2004 and July 2005 respectively. After that, due diligence review and discussion have been carried out and they are going smoothly.