

## Management Discussion and Analysis

### REVIEW OF OPERATIONS

During the year, the Group recorded an audited loss attributable to shareholders of approximately HK\$131,251,000 (2005: loss of approximately HK\$94,376,000). The loss attributable to shareholders was mainly due to the making of provisions on investment deposits (HK\$25,000,000), loans and margin receivable (HK\$63,550,000), loans interest receivable (approximately HK\$5,637,000) and investments held for trading (approximately HK\$27,764,000).

### ELECTRICAL ENGINEERING CONTRACTING BUSINESS

During the year, the Group continued the work in progress without any addition of new projects. The electrical engineering contracting business generated a turnover of approximately HK\$17,737,000, representing a decline of 59.0% from HK\$43,307,000 last year. Turnover from electrical engineering contracting business accounted for 59.7% (2005: 42.3%) of the total turnover of the Group.

During the year under review, various contracts, including the contracts for electrical engineering work at Tseung Kwan O Area 74 phase 4 and Tin Shui Wai Area 102-phase 2 and the term contract for electrical maintenance work for Hong Kong Housing Authority and Architectural Services Department were completed.

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As at 31 March 2006, the value of the Group's outstanding electrical engineering contracts on hand amounted to approximately HK\$779,000.

### ELECTRICAL MATERIALS & COMPONENT TRADING BUSINESS

Given the continued unfavourable market condition of local construction industry, the external sales from electrical materials and components trading of the Group decreased by 43.6% from approximately HK\$3,306,000 in the previous year to approximately HK\$1,865,000. In addition, with the increasing import of electrical appliances from Mainland China, it is believed that the competitive environment for the electrical materials and components trading will not improve in the near future.

### SECURITIES BROKERAGE AND FINANCING BUSINESS

Hong Tong Hai Securities Limited and Hong Tong Hai Capital Limited are engaged in asset management, financing, money-lending, and securities brokerage business. The income from these operations increased to approximately HK\$10,078,000 from approximately HK\$5,458,000 in the last financial year, representing an increase of 84.6%, as a result of the increased transactions in the financing and money-lending operations.

Hong Tong Hai Capital Limited is currently seeking legal and professional advice for the recovery of the overdue loans.

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### SEA FREIGHT FORWARDING SERVICES

The sea freight forwarding services has been temporarily suspended after several senior management staff resigned at the beginning of the year under review. The Group has not yet identified suitable staff for the recommencement of the sea freight forwarding business up to the date of this report and will continue to look for suitable candidates.

### OTHER BUSINESSES

The Group recorded a realised gain of approximately HK\$25,927,000 during the year for the disposal of three subsidiaries and made a provision for an associate company in the amount of approximately HK\$467,000.

In addition, by exercising prudence, the Group has made provisions for impairment in the total of approximately HK\$121,951,000 in respect of investment deposits, investments held for trading, loans receivable and loan interest receivables.

## FINANCIAL REVIEW AND ANALYSIS

### Financing

#### Liquidity, Financial Resources and Gearing

As at 31 March 2006, the Group's total current assets and current liabilities were approximately HK\$89,335,000 (as at 31 March 2005: HK\$118,585,000) and approximately HK\$50,661,000 (as at 31 March 2005: HK\$53,042,000) respectively, while the current ratio was about 1.76 times (as at 31 March 2005: 2.24 times).

As at 31 March 2006, the Group's aggregate cash balance amounted to approximately HK\$19,707,000 (as at 31 March 2005: HK\$13,303,000), representing 22.06% (as at 31 March 2005: 11.22%) of total current assets. Barring unforeseeable circumstances and with the financial support from a substantial shareholder of the Company, the Directors believe that the Group should have adequate funds and liquidity for its business operations.

As shown in the Group's consolidated balance sheet as at 31 March 2006, total equity amounted to approximately HK\$40,056,000 (as at 31 March 2005: HK\$139,937,000); whereas the Group's total borrowings was approximately HK\$16,737,000 (as at 31 March 2005: HK\$10,723,000) only, which mainly comprised of HK dollar overdrafts, borrowings and finance lease obligations. Bank overdrafts carry interest on the prime lending rate, other borrowings carry interest at fixed rate and finance charges are fixed on the date finance leases are entered into. Compared with the level of inventory level in the last financial year, the inventory level as at the end of this period decreased by 46.6%, which was mainly attributed to the shrinking of the electrical materials and components trading business.

As at 31 March 2006, the gearing ratio, defined as total debts over total assets, was approximately 18.04% (as at 31 March 2005: 4.38%). The increase in the gearing ratio was mainly due to new borrowing obtained from financial institutions.

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### Placing of New Shares and Use of Proceeds

On 21 April 2005, the Company placed a total of 77,344,000 new shares of HK\$0.10 each at a consideration HK\$0.40 per share, with Kingston Securities Limited as a placing agent, to independent investors pursuant to the placing underwriting agreement dated 22 March 2005, further details of which are set out in the announcement of the Company dated 22 March 2005. The placing of shares was completed on 21 April 2005.

The net proceeds of the abovementioned placing of shares amounted to approximately HK\$30.1 million was intended to be used for making future investments including, inter alia, the proposed acquisition of up to 49% of the equity interest of a pharmaceutical product and investment company in the People's Republic of China. As the proposed acquisition did not proceed, the entire amount of the net proceeds has been retained as the Group's general working capital.

### Major Investments

During the year under review, the Group made no major investment except for the investment in the non-voting cumulative redeemable convertible preference shares of China Sciences Conservational Power Limited ("CSCPL"), which were issued by CSCPL to the Group as consideration for the disposal of the Group's investment in the waste incineration processing plant in Dongguan. Details of this disposal are set out in notes 25(a), 45 and 49 of the notes to the financial statements.

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### 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. Since the Company's shares are listed on The Stock Exchange of Hong Kong Limited, the Group basically has not changed its foreign exchange management policy. The risks in foreign exchange this year were reduced because of the decrease in overseas purchases at times of reduced trade activities. As at 31 March 2006, the Group had no significant outstanding forward foreign exchange contracts on hand.

### Contingent Liabilities and Capital Commitments

Details of contingent liabilities and capital commitments are set out in notes 42 and 43 to the financial statements respectively.

### Pledge of Assets

Details of the pledge of assets are set out in note 47 to the financial statements.

## Management Discussion and Analysis

### PROSPECTS

On 29 September 2005, the Independent Commission Against Corruption issued a press release in relation to the arrest of 22 individuals for alleged corruption over the misappropriation of funds from listed companies and it was subsequently mentioned in certain press articles that several former directors of the Company had been arrested. As a result, the Company requested a suspension in the trading of its shares with the effect from 9:30 a.m. on 29 September 2005. Trading of the shares of the Company remains suspended.

Since October 2005, the composition of the Board of the Company has undergone substantial changes. The Special Board Committee, comprising two former directors of the Company, was formed on 31 October 2005 to review the existing financial and business position of the Group. On 13 December 2005, CCIF CPA Limited, a firm of certified public accountants which is an independent third party, was appointed at the recommendation of the Special Board Committee to conduct a review of the financial affairs of the Group for the period from 1 April 2005 to 31 December 2005 (the "Financial Due Diligence Review"). Subsequent to the change in most of the Directors of the Board in May 2006 as a result of the change in substantial shareholder of the Company, the current Board is in the course of reviewing the draft reports on the Financial Due Diligence Review. The current Board will also review the existing businesses of the Group with the intention to formulate a proposal to submit to the Stock Exchange for the resumption of trading of the shares of the Company.

With the termination of a number of proposed acquisition, the current Board intends to continue for the time being with the existing business operation of the Group including electrical engineering contracting business, trading in electrical materials and components, investment holding, securities brokerage, financing, money-lending and sea freight forwarding services. For the electrical engineering contracting business, the current Board is currently negotiating an electrical engineering contract in a development site in Tseung Kwan O but no contracts have been signed up to the date of this report.