

## Management Discussions and Analysis



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*Deputy Chairman & Managing Director*

***With the global economy in the doldrums, US interest rates have been on the decline. In comparison, China's economic backdrop appears to be more robust than its global counterparts. It is expected to maintain its strong growth in light of the country's imminent entry into the World Trade Organisation, the hosting of the Olympic Games by Beijing in 2008, and the unlimited opportunities provided by a market of 1.2 billion population. Against this backdrop, a recovery of the Hong Kong economy is also anticipated on the horizon, setting the businesses of the Group onto the road to success.***



The ATNT Group's consolidated turnover increased from HK\$581 million for the year ended 31st March, 2000 to HK\$720 million for the year ended 31st March, 2001.

However, there have been great challenges in the global financial markets and the substantial changes in market conditions and fundamentals have adverse impacts on internet, technology, telecommunications and electronics industries and this in turn has produced negative effects on the Group's businesses.

The Group's electroplating equipment business accomplished profitable results in the financial period under review. However, such results were made against the background of unpredictable dramatic market changes in the electronics industry and extreme keen competition attributing to decrease in gross profit margins for the Group's electroplating equipment.

The increase in the Group's distribution costs and administrative expenses were attributed to the development of data centre business and satellite business. On the other hand, finance cost was comparable to the amount of last year.

The Board has conducted a thorough review of the Company's investment portfolio and has decided to make provisions against the Group's strategic investments. The losses for the year attributable to shareholders therefore mainly reflect goodwill written off, the losses on securities investment for the year, losses on disposal of data centre, share of losses of associates, and in additions to the above, unrealised losses have been recognised in respect of other investments which have been marked to market at the year-end.

## Timber Business

On 30th May, 2001 the Company has entered into a conditional sale and purchase agreement with Strength Hope Holdings Limited (the "Vendor"), whereby the Company has agreed to purchase from the Vendor all of the issued share capital of Strength Hope Limited ("SHL") (a company with forestry interests in Indonesia) for an aggregate consideration of HK\$64,500,000 to be satisfied in full as follows:

- (a) HK\$30,000,000 of convertible notes ("Consideration Notes") (at conversion price per share of HK\$0.06) to be issued by the Company;
- (b) 500,000,000 new shares nominal value of HK\$0.01 in the Company at a price per share of HK\$0.06 to be issued;
- (c) the transfer of the 150,000,000 ordinary shares at price per share of HK\$0.03 in Smartech transferred by the Company.

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The Vendor has undertaken that if the gross profits of SHL for the period of six months after the date of the Agreement (which period may be extended if any force majeure events arise) is less than HK\$15,000,000, then the Company is entitled to redeem Consideration Notes with a principal value equal to 2 times the shortfall (subject to a maximum of HK\$30,000,000, being the face value of the Consideration Notes).

SHL carries on the business of timber trading in Indonesia and in particular has entered into an exclusive logging and supplies contract, a transport and export contract, a management & production contract and sawmill lease contract with various Indonesia parties. These contracts enable the Company to source logs and process them into sawn timber.

The existing management of SHL will remain in place following the sale of SHL to the Company and thus SHL will continue to have the necessary management expertise.

The Company has entered into the Agreement as part of its policy to diversify its business interests so as to reduce risk. Furthermore, the Company believes that SHL's business will produce a very steady income stream for the Company. This belief is based on the same factors considered in determining the consideration as stated above. The anticipated steady income stream is expected to have a positive impact on the earnings and assets of the Company.

On 29th June 2001 the Company has entered into another conditional sale and purchase agreement with an independent third party whereby the Company has agreed to purchase from the Vendor 51% of the entire issued share capital of Function Hope Limited ("Function Hope") for an aggregate consideration of HK\$80,000,000 to be satisfied in full by the issue of the Loan Note by the Company at Completion. The only asset of Function Hope will be a 97% of the entire equity interests in an Indonesian company which is principally engaged in timber trading business in Indonesia. Pursuant to the Agreement, that independent third party agreed to give performance guarantees to the Company to hedge its downside risk arising from the timber trading business.

## *Principal terms of the Loan Note*

Principal	The Loan Note HK\$80,000,000
Tenor	10 years
Interest rate	4.5% per annum
Reduction of repayment amount	If the cumulative consolidated net profit before taxation of the Function Hope Group for a term of 5 years (or such longer period as may be extended upon the occurrence of any force majeure event) from the date of Completion shall be less than HK\$150 million, the Company's obligations to repay the last 5 instalments in the aggregate amount of HK\$40 million shall cease and accordingly, the principal amount of the Loan Note outstanding shall forthwith be reduced by HK\$40 million.



**(a) Profit guarantee**

For the First Period (a term of 6 months commencing from the Stock Take Date), the consolidated net profit before taxation of the Function Hope Group shall not be less than HK\$25 million. In the event that such net profit falls short of the minimum amount specified, the Vendor shall make a payment to the Company equal to 51% of the profit shortfall and where Function Hope Group incurs a loss for the First Period, the full amount of such net loss shall be included as part of the profit shortfall.

**(b) Production volume guarantee**

For the Second Period (a term of 18 months from the expiry of First Period), the combined wood production volume of the Function Hope Group shall not be less than 170,000 cubic metres.

**(c) Production cost guarantee**

For the Second Period, the average cost of production of the Function Hope Group shall not exceed US\$95 per cubic metre of production of wood on FOB terms (referring to all costs incurred up to loading onto vessels).

The time limit for satisfaction of the above performance guarantees may be extended upon the occurrence of any force majeure event. The Directors consider the above performance guarantees beneficial to the Group by alleviating possible downside risk to the Group arising from the acquired timber trading business.

The sole asset of Function Hope will be a 97% equity interest in P.T. Unindo Dharma Sakti ("Unindo"), a company incorporated in Indonesia, which is principally engaged in the business of timber trading in Indonesia and in particular has entered into an exclusive logging and supplies contract with an Indonesia company, to which a concession right in relation to timber logging has been granted by the Indonesian Government.

As stated as one of the conditions precedent, the consolidated net asset value of the Function Hope Group as at Completion will not be less than US\$7 million (approximately HK\$54.5 million). In view that apart from the acquisition of forestry interests at the end of May 2001, the Company has not been engaged in timber related business, Unindo will continue to be managed by its existing management after Completion, thus the necessary expertise and human resources are in place for the future management and operations of Unindo's timber trading business. Upon Completion, the Company will be entitled to appoint 3 directors into the board of Function Hope and the Vendor will be entitled to appoint 1 director, while the board of Unindo will remain unchanged.

Further to the acquisition of forestry interests in Indonesia as detailed in the announcement dated 30 May 2001, the Directors consider that the Acquisition would allow the Group to further consolidate its timber trading business and achieve diversification of its business portfolio and provide a potential source of steady revenue to the Group. The performance guarantees given by the Vendor are considered by the Company as favourable to the Group by providing a cushion to the Group's profitability deriving from the timber trading business.

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On 24th July, 2001, the acquisition of SHL has been completed. However, the acquisition of Function Hope is still in progress. Completion of acquisition of Function Hope will be subject to satisfactory completion of a number of conditions precedent and due diligence investigation.

## Satellite Communication Business

On 14th June, 2001, an Agreement was entered into between a wholly owned subsidiary of the Company and the Purchaser Teleinvest Holdings Limited which is a wholly owned subsidiary of eCyberChina Holdings Limited ("eCyberChina") pursuant to which, inter alia, the Vendor agreed to sell and the Purchaser agreed to procure the purchase of 20 Shares in Sky Citi-Link ATNT (Holdings) Limited ("Sky Citi-Link"), representing 20% of its issued share capital and the shareholders' loan at Completion, for an aggregate Consideration of HK\$40,000,000. The Consideration is to be satisfied by the issue of 40,000,000 Consideration Shares, credited as fully paid at HK\$1.00 each the Company or as it may direct.

Sky Citi-Link was incorporated on 25th February, 2000. Its subsidiary, Sky Citi-Link International Telecom Limited ("SCL") is a telecom carrier. The Office of the Telecommunications Authority has granted the External Fixed Telecommunication Network Services Licence to SCL on 1st April, 2000 to operate international telecommunication services with effect from 1st April, 2000. In addition, through Sky Citi-Link Teleport Limited, SCL has acquired a 117,000 sq ft site at Tai Po Industrial Estate to develop an antenna farm.

According to the valuation of Sky Citi-Link carried out by American Appraisal Hongkong Limited, the value of Sky Citi-Link is HK\$205,000,000 as at 31st March, 2001.

The above agreement was completed in early July, 2001. The benefits which are expected to accrue to the Company as a result of entering into the Agreement are the expanded shareholder base and the anticipated broadening of its income stream. eCyberChina is going to launch the Digital Community project in various cities in the PRC. With the state-of-art and expertise of SCL in Asia, the Company is expected to contribute tremendously to the development of such projects, providing a backhaul across the border of the PRC. SCL will invest in stages responding to the market conditions and development of telecommunication technologies.

## Electroplating Equipment Business

For Process Automation International Limited ("PAL") the respective movement of percentage of turnover for each sales region out of total turnover in this financial year compared with last year's percentage are as follows:

Taiwan provided a major source of income for the electroplating equipment business accounting for decrease from 36% last year to 21.3% this year.





South East Asia and others showed a substantial increase from 21% last year to 32.34% this year.

Hong Kong and the PRC also showed a healthy growth in turnover from 18% of last year to 26.84% of turnover in this financial year.

Europe also showed a small increase of 11% of turnover to 14.79% this year.

North America showed a drop in turnover from 14% last year to 4.73% in this financial year. In the USA, the process of acquisition and mergers continued strongly during the years. The period immediately following such acquisitions, is invariably one of readjustment, during which all major capital equipment projects are put on hold until the new management has formulated its strategy for the new Group. However, such mergers and acquisition process will eventually lead to an increase in demand for quality electroplating equipment.

During the year, the electroplating equipment business was affected by the downturn of the electronics industry. PAL will focus on R&D for new electroplating equipment, cost control, increasing competitiveness and will be well positioned to benefit from future recovery of market conditions.

### Wet Processing Equipment Business

The shares of Intech Machines Company Ltd., a subsidiary of the Company, was successfully admitted to the Taiwan Over-The-Counter Securities Exchange ("Taiwan OTC") and shares started to be traded on the Taiwan OTC on 15th March, 2001. As part of the process of obtaining such admission, the Company on 7th March, 2001 disposed 3,590,000 Intech Shares. Intech remains a 50.33% owned subsidiary of the Company after such placing. The net proceeds from the placing has been used by the ATNT Group for general working capital purposes.

No new share was issued by Intech as part of this exercise. Intech is engaged in the design, manufacture and sale of custom-built horizontal wet processing and automation machinery. In addition to enabling Intech to have separated fund raising abilities, the Directors expect that the admission of Intech to the Taiwan OTC will help to increase Intech's profile and enhance its fund raising capability, thereby strengthening Intech's ability to expand its business in Taiwan and the international market. The Directors consider these will enhance the overall ability of the ATNT Group to continue to expand its operations as appropriate and will benefit its shareholders.

### Other Businesses

The entertainment production business continues to contribute to the Group in the year under review. The Group will launch "The 35th Anniversary Ultraheroes in August, 2001," concerts of Jenny Yan, Tsai Chin, Deanie Yip and Lau Ka Chung. In addition to generating revenue to the entertainment production business, the concerts will benefit the Group's stage engineering and equipment rental businesses.

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Money lending business continues to contribute to the Group as a stable source of re-current income. The Group has adopted a prudent and conservative policy where comfortable security is a basic requirement.

## Wind Generator Business

The first PRC made high power wind generator manufactured by the Group's joint venture ("JV") with the China Academy of Launch Vehicle Technology is now generating the normal level of electricity at a wind park in Inner Mongolia. In response to the market and customer requirements, well experienced engineers of the JV are allocating resources to R&D for improving the features of the wind generator and reducing manufacturing cost.

Concurrently, the JV is exploring opportunities with overseas customers for contract processing of wind leaves and spare parts of wind generators.

## Sale of Data Centre Business

On 12th January, 2001, a wholly owned subsidiary of the Company entered into an agreement with a subsidiary of Smartech Digital Manufacturing Holdings Limited ("Smartech") whereby the Company agreed to sell to Smartech all of the issued share capital and outstanding shareholder loans of Sky Datamann International Limited ("Sky Datamann") to be satisfied in full at completion by the issue of 700,000,000 shares in Smartech. Sky Datamann was engaged in the operation of a data centre in Hong Kong.

The Director considered that comparing the investment of Smartech shares and running a data center, the data centre would demand a high operational expenses and need to face very keen competition. Therefore, it would be beneficial for the Group to sell the Data Centre business.

## Financial Position

The Group has remained healthy regarding her financial position and working capital. Gearing has remained at a low level. As at 31st March, 2001, the Group's cash and bank balances amounted to approximately HK\$67 million. Total debt was approximately HK\$122 million, equivalent to 28.6% of the shareholder's funds.

## Prospects

With the global economy in the doldrums, US interest rates have been on the decline. In comparison, China's economic backdrop appears to be more robust than its global counterparts. It is expected to maintain its strong growth in light of the country's imminent entry into the World Trade Organisation, the hosting of the Olympic Games by Beijing in 2008, and the unlimited opportunities provided by a market of 1.2 billion population. Against this backdrop, a recovery of the Hong Kong economy is also anticipated on the horizon, setting the businesses of the Group onto the road to success.



Furthermore, the US economy is likely to rebound near the end of the year when it is to be kicked start by the combined effects of tax rebates and the aggressive interest rate cuts. In addition, in view of the China factors mentioned above, the prospects of the Group is very encouraging in the medium term. As such, the Directors are very optimistic about the development of the Group in the coming year.

Overseas and Taiwan customers purchasing electroplating equipment and wet-processing equipment of the Group have one after the other made investment and set up factories in the PRC, particularly in Shanghai and Suzhou. The Group has already established a number of service centers on the mainland, reinforced with research and development support, to cater for the increasing demand of these customers. Our customers are expected to benefit when recovery of the electronics industry comes, thereby driving up the sales of the electroplating equipment and wet-processing equipment of the Group.

The keen demand for external communications of the PRC market, coupled with the Group's increased cooperation with its PRC partners, will eventually benefit the Group's satellite communication business.

With regard to the timber business, the PRC is a net import country of timber. Her sustained demand for quality timber and wood products from Indonesia will result in an increase in sales to the Group.

All in all, the gradual recovery of the global economy and the China factors mentioned above will have a positive impact on the Group. Therefore the Directors are very confident of the Group's future and in delivering good returns to the investment of its shareholder.

**Kwok Hing Lam**

*Deputy Chairman and Managing Director*

Hong Kong, 26th July, 2001