

REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements of the Company and the Group for the year ended 31 March 2002.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the subsidiaries comprise the provision of a multi-discipline of building services in electrical engineering, water pumping and fire services, air-conditioning installation, plumbing and drainage, environmental engineering, extra low voltage system engineering and project management, and the trading of electrical and mechanical engineering materials and equipment.

During the year, the Group has discontinued its broadband connectivity and karaoke-on-demand businesses, further details of which are included in note 6 to the financial statements. Save as above, there were no significant changes in the nature of the Group's principal activities during the year.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31 March 2002 is set out in note 4 to the financial statements.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 March 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 30 to 88.

The directors do not recommend the payment of any dividend in respect of the year (2001: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and financial resources

The Group's cash and bank balances are mostly in Hong Kong Dollars. The cash and bank deposit balances were approximately HK\$52,826,000 as at 31 March 2002, representing a decrease of approximately 32% as compared with that of previous year. The decrease was mainly due to the funding of the additional working capital for building services contracting business made during the year. The total bank borrowings were approximately HK\$21,969,000 as at 31 March 2002, a decrease of approximately HK\$62,758,000 as compared to that of last year. The total bank borrowings substantially comprised bank overdraft and bank trust receipt loans at various interest rates. As at 31 March 2002, the ratio of the total bank borrowings to shareholders' equity was approximately 19%. As the Group's transactions are mostly settled by Hong Kong dollars, the use of financial instruments for hedging purposes is not considered necessary.

Placements

On 14 June 2001, the Company announced to place 75,000,000 new shares of the Company at a price of HK\$0.20 per share to more than six professional and private investors. On 13 July 2001, the Company announced that the placing of 75,000,000 new shares of the Company lapsed as the Company could not fulfil the conditions of completion of the placing by 13 June 2001.

On 28 September 2001, the Company announced to allot and issue 77,000,000 new shares of the Company at HK\$0.20 per share to three subscribers. The net proceeds from the subscription, after deducting relevant expenses, would amount to approximately HK\$15.3 million. On 5 November 2001, the Company announced that the subscription of all 77,000,000 new shares was completed on 26 October 2001.

The net proceeds of approximately HK\$15.3 million raised from the subscription had been used in accordance with the plans as outlined in the announcement as follows:

1. approximately HK\$4 million for enabling a subsidiary of the Company to satisfy the working capital requirements imposed by the relevant authorities and / or departments of the Hong Kong Government; and
2. the balance of approximately HK\$11.3 million for strengthening the Group's working capital position for tendering of building services projects.

REPORT OF THE DIRECTORS

(Continued)

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Treasury and funding policy

The Group's overall treasury and funding policy is that of risk management and control. The assets and liabilities of the Group are mainly denominated either in Hong Kong or United States dollars. Accordingly, the Group has minimal exposure to foreign exchange fluctuation. However, the Group will closely monitor the overall currency and interest rate exposures. When considered appropriate, the Group will hedge against currency exposure as well as interest rate exposure.

Pledge of assets

As at 31 March 2002, the Group's bank deposits of HK\$26.8 million were pledged to secure general banking facilities granted to the Group.

Employees and remuneration policy

The Group employed approximately 250 employees as at 31 March 2002.

Remuneration is determined by reference to market terms and qualifications and the experience of the staff concerned. Salaries are reviewed annually depending on individual merits. The Group also provides other benefits including retirement benefits scheme, medical insurance and educational subsidy to all eligible staff. Additionally, the Group has a share option scheme for its executives and employees. During the year ended 31 March 2002, no such options were granted by the Company under the share option scheme.

Business and operation review

A detailed review of the Group's business operations and outlook is included in the Chairman's Statement.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and reclassified as appropriate is set out below. The accounts for each year in the five year summary has been adjusted for the effect of the retrospective changes in accounting policies affecting dividends and goodwill as detailed in note 15 to the financial statements.

Results

	Year ended 31 March				
	2002	2001	2000	1999	1998
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)			
TURNOVER					
Continuing operations	663,702	790,403	705,971	605,510	499,287
Discontinued operations	34,730	42,379	—	—	—
	<u>698,432</u>	<u>832,782</u>	<u>705,971</u>	<u>605,510</u>	<u>499,287</u>
Cost of installation and cost of sales	(572,382)	(712,885)	(609,676)	(528,337)	(431,814)
Gross profit	<u>126,050</u>	<u>119,897</u>	<u>96,295</u>	<u>77,173</u>	<u>67,473</u>
Other revenue	2,451	5,845	8,912	4,318	2,584
Administrative expenses	(119,684)	(93,320)	(64,093)	(55,776)	(45,988)
Provision against obsolete inventories	(179)	(2,922)	—	—	—
Legal expenses	(7,907)	—	—	—	—
Loss on disposal of subsidiaries, net	(341)	—	—	—	—
Unrealised holding losses on other investments	(6,567)	—	—	—	—
Realised loss on disposal of other investments	—	(13,202)	—	—	—
Provision for impairment:					
- long term investments	—	(38,298)	—	—	—
- goodwill	(12,680)	(23,726)	—	—	—
- fixed assets	(826)	(7,972)	—	—	—
Profit/(loss) from operating activities					
Continuing operations	(3,653)	(26,605)	41,114	25,715	24,069
Discontinued operations	(16,030)	(27,093)	—	—	—
	<u>(19,683)</u>	<u>(53,698)</u>	<u>41,114</u>	<u>25,715</u>	<u>24,069</u>
Finance costs	(3,194)	(4,645)	(3,562)	(4,262)	(4,369)
Share of profits less losses of associates	(3,605)	(19)	(158)	4	(9)
PROFIT/(LOSS) BEFORE TAX	<u>(26,482)</u>	<u>(58,362)</u>	<u>37,394</u>	<u>21,457</u>	<u>19,691</u>
Tax	(5,209)	(7,601)	(6,267)	(3,399)	(2,298)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	<u>(31,691)</u>	<u>(65,963)</u>	<u>31,127</u>	<u>18,058</u>	<u>17,393</u>
Minority interests	(3,631)	6,818	901	(33)	(390)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<u>(35,322)</u>	<u>(59,145)</u>	<u>32,028</u>	<u>18,025</u>	<u>17,003</u>

REPORT OF THE DIRECTORS *(Continued)*

SUMMARY FINANCIAL INFORMATION *(Continued)*

Assets, liabilities and minority interests

	Year ended 31 March				
	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000 (Restated)	1999 HK\$'000 (Restated)	1998 HK\$'000 (Restated)
TOTAL ASSETS	331,201	447,862	453,652	340,019	295,591
TOTAL LIABILITIES	(212,043)	(325,012)	(249,701)	(201,539)	(171,921)
MINORITY INTERESTS	(4,061)	(430)	(2,830)	(731)	(698)
NET ASSETS	<u>115,097</u>	<u>122,420</u>	<u>201,121</u>	<u>137,749</u>	<u>122,972</u>

The net assets of the Group as at 31 March 1998, 1999 and 2000 have been adjusted for the effects of the retrospective changes in accounting policy for dividend declared after the respective balance sheet dates, details of which are set out in note 2 to the financial statements.

FIXED ASSETS

Details of movement in the fixed assets of the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in note 28 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws in Bermuda, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALES OF LISTED SECURITIES OF THE COMPANY

During the year, the Company repurchased certain of its shares of HK\$0.1 each on The Stock Exchange of Hong Kong Limited, details of which were as follows:

Month/year	Number of shares repurchased	Price per share		Aggregate consideration HK\$
		Highest HK\$	Lowest HK\$	
April 2001	450,000	0.2600	0.2300	108,328

These shares were cancelled upon repurchase and accordingly, the issued share capital of the Company was reduced by the nominal value of these shares. The premium paid on the repurchase of the shares of the HK\$63,328 had been charged against the retained profits. An amount equivalent to par value of shares cancelled had been transferred from the retained profits of the Company to the capital redemption reserve.

Except as disclosed above, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in reserves of the Company and the Group during the year are set out in note 29 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 March 2002, the Company did not have any reserves available for distribution. The Company's share premium account, in the amount of HK\$110,632,000 may be distributed in the form of fully paid bonus shares.

REPORT OF THE DIRECTORS

(Continued)

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 67.6% of the total sales for the year and sales to the largest customer included therein amounted to 24.3%. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

None of the directors of the Company or any of their associates or shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr. WONG Sai Wing, James (*Chairman*)

Mr. KWOK Shun On (Ceased to be a director on 16 July 2001)

Mr. AU Shiu Wai, Frank

Mr. CHAN Yuen Keung, Zuric

Mr. OU Ka Chi (Appointed on 13 June 2001)

Non-executive directors:

Mr. YU Sek Kee, Stephen (Appointed on 7 April 2001)

Mr. HONG Yiu (Appointed on 8 March 2002)

Mr. Barry John BUTTIFANT (Resigned on 7 April 2001)

Ms. KWOK Lai Sheung, Melissa (Ceased to be a director on 29 October 2001)

Independent non-executive directors:

Mr. YUEN Yiu Bun, Kenneth (Appointed on 25 September 2001)

Mr. LI X Sinclair (Appointed on 25 September 2001)

Mr. James BLAKE (Resigned on 24 September 2001)

Mr. Bernard POULIOT (Resigned on 24 September 2001)

In accordance with the Company's bye-laws, Messrs. Yu Sek Kee, Stephen, Yuen Yiu Bun, Kenneth and Hong Yiu will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' AND SENIOR MANAGERS' BIOGRAPHIES

Biographical details of the directors of the Company and the senior managers of the Group are set out on pages 3 to 5 of the Annual Report.

DIRECTORS' SERVICE CONTRACTS

Mr. Kwok Shun On entered into an employment contract with one of the Company's subsidiaries as senior executive. The employment contract is terminable by either party by giving one month's prior written notice to the other. Mr. Kwok ceased to be the director of the Company on 16 July 2001.

Mr. Au Shiu Wai, Frank entered into a service contract with the Company with effect from 1 February 1994. The service contract is terminable by either party by giving two months' prior written notice to the other.

Mr. Ou Ka Chi entered into an employment contract with one of the Company's subsidiaries as senior executive. The employment contract is terminable by either party by giving one month's prior written notice to the other.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 31 to the financial statements and in the section "Connected transactions" below, no directors had a material interest in any contract of significance to the business of the Group to which the Company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

REPORT OF THE DIRECTORS (Continued)

DIRECTORS' AND SENIOR EXECUTIVES' INTERESTS IN SHARES

As at 31 March 2002, the directors' and senior executives' interests in the share capital of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

Name	Capacity	Number of shares held and nature of interest			
		Personal	Family	Corporate	Other
Mr. Chan Yuen Keung, Zuric	Managing Director	10,000,000	—	—	—
Mr. Au Shiu Wai, Frank	Director	600,000	—	—	—
Mr. Hong Yiu	Director	27,200,000	—	—	—
Mr. Ou Ka Chi	Director and Company Secretary	1,400,000	—	—	—
		<u>39,200,000</u>	<u>—</u>	<u>—</u>	<u>—</u>

Save as disclosed above, none of the directors, senior executives or their associates had any personal, family, corporate or other interests in equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' AND SENIOR EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed above, under the heading "Share option scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors and senior executives or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

On 15 September 1992, a Share Option Scheme (the “Scheme”) was approved by the shareholders of the Company, under which the directors of the Company may, at their discretion, offer any employee (including any director) of the Company or of any of its subsidiaries, options to subscribe for shares in the Company subject to the terms and conditions stipulated in the Scheme. The summary terms and particulars of outstanding options under the Scheme are made pursuant to the requirements as contained in Chapter 17 of the Listing Rules.

Summary of the Scheme

(a) Purposes of the Scheme

The purpose of the Scheme is to attract and retain high calibre employees, and to motivate them to higher level of performance.

(b) Participants of the Scheme

The board may, at its discretion, grant to any employees (including any director) of the Company or of any of its subsidiaries, options to subscribe for the Company’s shares.

(c) Maximum number of shares available to issue under the Scheme

The maximum number of the shares in respect of which options may be granted under the Scheme will be such number of shares, when aggregated with shares already subject to any other share options schemes of the Company, as shall represent 10% of the issued share capital of the Company from time to time (excluding for this purpose any shares issued pursuant to the Scheme).

(d) Maximum entitlement to any one participant

Under the Scheme, no options may be granted to any one employee which if exercised in full would result in the total number of the Company’s shares already issued and issuable to him under all the options granted to him exceeding 25% of the aggregated number of shares of the Company for the time being issued and issuable under the Scheme.

REPORT OF THE DIRECTORS *(Continued)*

SHARE OPTION SCHEME *(Continued)*

Summary of the Scheme *(Continued)*

(e) Period and payment on acceptance of options

Under the Scheme, the offer of an option to acquire shares must be accepted in writing in such manner as the board may prescribe within 30 days from the date of offer and no fee is payable upon the grant of the option.

(f) Period within which the shares must be taken up under an option

An option may be exercised in whole or in part at any time during an exercise period commencing on the date of the grant of the option to a participant and expiring at the close of business on the second anniversary of that date.

(g) The basis of determining the exercise price

The exercise price of the options is determined by the board and will not be less than the higher of (i) the nominal value of the Company's shares; and (ii) an amount not less than 80% of the average closing price of the Company's shares on The Stock Exchange of Hong Kong Limited for the five business days immediately preceding the date on which the offer to grant an option.

(h) Remaining life of the Scheme

The Scheme is valid until 14 September 2002.

SHARE OPTION SCHEME (Continued)

The Stock Exchange of Hong Kong Limited amended the requirements for share option scheme under the Listing Rules, which came into effect on 1 September 2001. As a transitional arrangement, the Company must comply with these new requirements before further options can be granted under the Scheme.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the share options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Share options which are cancelled prior to their exercise date are deleted from the outstanding share options.

The movement of share options under the Scheme during the year were as follows:

Name or category of participant	Number of share option			Date of grant of share options	Exercise period of share options	Exercise price of share options HK\$	Price of Company's shares	
	At 1 April 2001	Exercised during the year	At 31 March 2002				At grant date of options HK\$	At exercise date of options HK\$
Employees	150,000	150,000	—	27 April 1999	27 April 1999 to 26 April 2001	0.1785	0.24	0.255

CONNECTED TRANSACTIONS

Ongoing connected transactions

Terms used in this section shall, unless the context otherwise requires, have the same meaning in the circular dispatched to all shareholders of the Company on 26 February 2001.

REPORT OF THE DIRECTORS

(Continued)

CONNECTED TRANSACTIONS (Continued)

Ongoing connected transactions (Continued)

On 7 February 2001, the Company announced that certain subsidiaries of the Company, namely Shun Cheong Electrical Engineering Company Limited, Westco Airconditioning Limited, Speedlink Limited and KOD Hong Kong Limited would from time to time enter or continue to enter into transactions with Diyixian.com Limited. These transactions constituted connected transactions for the Company under the Listing Rules which would normally require disclosure by way of press announcement and prior approval of independent shareholders of the Company each time when such transactions occur. As these transactions were/would be ongoing in nature, the Company applied to The Stock Exchange of Hong Kong Limited ("SEHK") for ongoing waivers from the disclosure and/or shareholders' approval requirements in respect of these transactions on each occasion they arose. A detailed circular concerning the application for ongoing connected transaction waivers was dispatched to shareholders of the Company on 26 February 2001. The conditions of these ongoing connections waivers were approved by the Independent Shareholders of the Company in the Special General Meeting held on 16 March 2001 and were granted by the SEHK to the Company on 3 May 2001.

Connected transactions required to be disclosed in accordance with Chapter 14 of the Rules Governing the Listing of Securities on the SEHK for the year ended 31 March 2002 included the following:

Name of subsidiaries	Nature of transactions	2002	2001
		\$'000	\$'000
Shun Cheong Electrical Engineering Company Limited ("SCEE")	Provision of services to Diyixian.com Limited ("Diyixian") in respect of installation and maintenance of electrical, mechanical, ventilation and air-conditioning systems in Diyixian's data centres	—	5,140
Speedlink Limited ("Speedlink")	Payment to Diyixian of rental for server co-location at Diyixian's data centres and for access to the Internet together with related set-up charges	1,453	1,576

CONNECTED TRANSACTIONS (Continued)

Mr. Kwok Shun On, director of the Company, was also the director of SCEE, Speedlink, Diyixian and Dyxnet Holdings Limited, the ultimate holding company of Diyixian. Mr. Kwok ceased to be the director of the Company on 16 July 2001 and resigned as the director of SCEE and Speedlink on 27 December 2001.

The independent non-executive directors of the Company had confirmed that the aforesaid ongoing connected transactions conducted by the Group during the year ended 31 March 2002 were:

1. in the ordinary and usual course of the Group's business;
2. on normal commercial terms or on terms not less favourable than terms available to or from independent third parties;
3. fair and reasonable so far as the shareholders of the Company are concerned; and
4. within the relevant amounts as stipulated under the relevant waivers.

Reorganisation of Binary KOD Limited

On 26 March 2002, the Group entered into a reorganisation agreement with existing partners in relation to the operation of Binary KOD Limited, an indirectly owned subsidiary of the Company. Further details of the reorganisation are set out in the Company's public announcement date 28 March 2002.

SUBSTANTIAL SHAREHOLDERS

At 31 March 2002, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of shares held	Percentage of the Company's share capital
Chinney Alliance Group Limited	138,790,000	29.93

REPORT OF THE DIRECTORS *(Continued)*

SUBSTANTIAL SHAREHOLDERS *(Continued)*

Save as disclosed above, no person, other than the directors and senior executives of the Company, whose interests are set out in the section "Directors' and senior executives' interests in shares" above, had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

None of the directors or management shareholders of the Company had interest in a business which co-operates or may compete with the businesses of the Group.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, throughout the accounting period covered by the Annual Report, except that two of the independent non-executive directors are not appointed for specific terms as they are subject to retirement by rotation and re-election at annual general meetings in accordance with the Company's bye-law 99(A).

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code of Best Practice as set out in Appendix 14 of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal control systems of the Group.

The audit committee during the year comprised three members, namely Messrs. Yuen Yiu Bun, Kenneth and Li X Sinclair, both being independent non-executive directors of the Company, and Mr. Yu Sek Kee, Stephen, an non-executive director of the Company. Mr. Yu was appointed as a non-executive director of the Company on 7 April 2001 and as a member of audit committee on 16 July 2001. Messrs. Yuen and Li were appointed as the independent non-executive directors of the Company on 25 September 2001 and as members of the audit committee on the same date. Mr. James Blake and Mr. Bernard Pouliot resigned as independent non-executive directors of the Company and as members of audit committee on 24 September 2001.

OFFER TO ACQUIRE THE ENTIRE ISSUED SHARE CAPITAL OF THE COMPANY

On 14 July 2001, Yu Ming Investment Management Limited, on behalf of VLink Global Limited (the "Offeror"), made an unsolicited voluntary conditional cash offer (the "Offer") to acquire all of the ordinary shares of HK\$0.10 each in the share capital of the Company (the "Shares") in issue at HK\$0.01 per Share. Details of the Offer were announced by the Offeror on 17 July 2001 and were set forth in the offer document despatched by the Offeror to the holders of the Shares (the "Shareholders") on 7 August 2001.

A document containing, amongst other things, the advice of the independent financial adviser to the board of directors, DBS Asia Capital Limited, in respect of the Offer by Yu Ming Investment Management Limited on behalf of the Offeror to acquire all of the Shares in issue, was despatched by the Company to the Shareholders on 21 August 2001.

The Offer lapsed on 22 September 2001.

AUDITORS

The financial statements for the year ended 31 March 2001 were audited by Arthur Andersen & Co. who resigned as auditors of the Company after the year end and Ernst & Young were appointed as auditors of the Company by the board of directors in accordance with the bye-laws of the Company.

The financial statements for the year under review have been audited by Ernst & Young. Ernst & Young will retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Wong Sai Wing, James
Chairman

Hong Kong Special Administrative Region
19 July 2002