

# Management Discussion and Analysis

## BUSINESS REVIEW AND PROSPECTS

During the year ended 31 October 2021, revenue of our environment-friendly products business and water supply plant business accounted for 74% (2020: 76%) and 26% (2020: 24%) respectively of the Group's total revenue.

The revenue of environment-friendly products business for the year ended 31 October 2021 was HK\$87,268,000, which was 24% more than that of year ended 31 October 2020 (2020: HK\$70,299,000) under China's positive industrial market sentiment. The revenue of water supply plant business for the year ended 31 October 2021 was HK\$31,252,000, 40% more than that of last year (2020: HK\$22,339,000) as the last year's water consumption was reduced by the suspension of schools and factories under the outbreak of COVID-19 but there was no such suspension in this year ended 31 October 2021 and our water supply plant has started to supply processed water to rural area near Jing-Jin New City, Baodi District of Tianjin City to replace their underground water usage in this year ended 31 October 2021.

The National Bureau of Statistics of the People's Republic of China (the "Bureau of Statistic of the PRC") recently announced that the China's gross domestic product (the "GDP") in the fourth quarter of 2021 grew by 4%, leading to 2021 full-year growth of 8.1% when the manufacturing Purchasing Managers' Index (the "PMI") was 50.3 in December 2021, above the threshold 50 indicating the expansion of China manufacturers' operations. In the process of transforming the China's economy to the "new normal" era with the new growth model emphasizing domestic consumption and quality, there are risks of decline in demand of low-end machinery and equipment but also opportunities under the national strategies of "Energy Conservation and Emission Reduction". Leverage on the Group's experience in this area and deep understanding of the needs of our clients, the Group will source supply of new products or services which fulfil the policy of energy conservation and emission reduction in China, although we will monitor the situation cautiously and adjust our development plan accordingly. Certain products of our environment-friendly products business were applied in the marine machinery sectors and clean energy sectors such as hydropower and wind power facilities. As the increase of international concerns of environmental protections, we believe that there will be a brighter prospect for our environment-friendly products business.

Our water supply plant in Tianjin has the exclusive right to supply processed water to certain areas inside and near Baodi District of Tianjin City including Jing-Jin New City. Under the Beijing-Tangshan Intercity Railways and Tianjin Binhai New Area Intercity Railway (together as the "New Intercity Railways"), there will be a railway station in Baodi district near our water supply plant in Tianjin. It was believed that the completion of the New Intercity Railways in future will promote the integrative and cooperative economic development of the Baodi District and Jing-Jin New City which will benefit our Group's water supply plant in Tianjin.

## FINANCIAL REVIEW

The Group's revenue for the year ended 31 October 2021 was HK\$118,520,000, increased by 28% when compared with last year ended 31 October 2020 (2020: HK\$92,638,000) as the revenue of our environment-friendly products business increased by 24% from last year ended 31 October 2020 of HK\$70,299,000 to this year ended 31 October 2021 of HK\$87,268,000 under China's positive industrial market sentiment. The revenue of our water supply plant business increased by 40% from last year ended 31 October 2020 HK\$22,339,000 to this year ended 31 October 2021 HK\$31,252,000 as the last year's water consumption was reduced by the suspension of schools and factories under the outbreak of COVID-19 but there was no such suspension in this year and our water supply plant has started to supply processed water to rural area near Jing-Jin New City, Baodi District of Tianjin City to replace their underground water usage in this year.

The Group's gross profit for the year ended 31 October 2021 was amounted to HK\$34,328,000, represented an increase of 16% when compared with that of last year (2020: HK\$29,559,000) due to increase in the Group's total revenue. The Group's gross profit margin for the year ended 31 October 2021 was amounted to 29% which was slightly decreased when compared with that of last year (2020: 32%). This was due to decrease of the gross profit margin of our environment-friendly products business while the price increases from our suppliers are hard to be transferred to our customers immediately under competitive industrial market in PRC.

# Management Discussion and Analysis

The Group's other income, gains and losses for the year ended 31 October 2021 was amounted to HK\$3,966,000, represented a decrease of 65% compared with last year (2020: HK\$11,324,000), as there was amounted to approximate HK\$3,209,000 reversal of tax surcharges after taking into account the up-to-date development of the Inland Revenue Department's review in last year but no such item in this year. Besides, the Group's agency service income decreased from last year HK\$6,587,000 to this year HK\$3,264,000.

The Group's selling expenses for the year ended 31 October 2021 was amounted to HK\$3,872,000, represented an increase of 7% compared with the last year (2020: HK\$3,611,000) due to increase of exhibition cost in this year. The Group's administrative expenses for the year ended 31 October 2021 was amounted to HK\$26,467,000 which was 3% less than that of the last year (2020: HK\$27,242,000) due to decrease of legal and professional fee.

The Group is subject to taxation in various jurisdictions and judgement is required in determining the amount of provision and the payment of taxation in accordance with the tax laws of the respective jurisdictions. Where the final tax outcome might be different from the amounts that were initially recorded, such difference will impact the income tax provisions. During the year ended 31 October 2021, tax provision HK\$2,701,000 was made, represented a decrease of 84%, when compared with tax provision HK\$16,464,000 for the year ended 31 October 2020, as there was HK\$ 12,440,000 tax under-provided in prior years for the year ended 31 October 2020 but no such item in this year ended 31 October 2021.

The Group recorded a profit attributable to owners of the Company for the year ended 31 October 2021 amounted to HK\$5,062,000 while there was a loss attributable to owners of the Company for the year ended 31 October 2020 amounted to HK\$7,786,000.

## LIQUIDITY AND FINANCE RESOURCES

During the year under the review, the Group financed its operations by internally generated cash flow, banking facilities provided by banks and shareholder loans. As at 31 October 2021, the Group had net current assets of approximately HK\$33,672,000 (31 October 2020: HK\$26,867,000) including bank balances and cash of approximately HK\$63,270,000 (31 October 2020: HK\$55,807,000). The current ratio, being the ratio of current assets to current liabilities, was approximately 1.47 as at 31 October 2021 (31 October 2020: 1.34). As at 31 October 2021, the Group's inventory turnover was about 62 days (31 October 2020: 96 days). The Group's accounts receivable turnover was about 66 days (31 October 2020: 92 days), the decrease in inventory turnover and accounts receivable turnover were due to increase the Group's revenue and customers' delay in settlements of outstanding balances were alleviated in this year.

## CAPITAL STRUCTURE

The Shares of the Company were listed on the GEM board of the Stock Exchange on 5 December 2001. Except for the share options under the pre-IPO share option scheme were exercised at the exercise price of HK\$0.01 per share, resulting in the issue of 96,740,000 ordinary shares of HK\$0.01 each for a total consideration of HK\$967,000 in November 2005, there has been no material change in the capital structure of the Company since that date. The capital of the Group comprises only ordinary shares.

## GEARING RATIO

The gearing ratio (defined as the total borrowing over total equity, including non-controlling interests) was approximately 12% as at 31 October 2021 (31 October 2020: 11%).

## TREASURY POLICIES

The Group adopts a conservative approach towards its treasury policies. The Group strives to reduce exposure to credit risk by performing ongoing credit evaluations of the financial conditions of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirement.

# Management Discussion and Analysis

## FOREIGN EXCHANGE EXPOSURE

The Group's purchases are denominated in Sterling Pounds, JPY, Euro and US Dollars. The sales of the Group are predominantly in RMB and HK\$. The Group will review and monitor from time to time the risk relating to foreign exchanges.

## CHARGE ON GROUP ASSETS AND CONTINGENT LIABILITIES

As at 31 October 2021, the Group had pledged its bank deposits of approximately HK\$9,020,000 (31 October 2020: HK\$9,020,000) to secure its banking facilities. Save as aforesaid, the Group did not have any other significant contingent liabilities as at 31 October 2021 (2020: Nil).

## INFORMATION ON EMPLOYEES

As at 31 October 2021, the Group had 77 employees (2020: 70) working in Hong Kong, Macau and PRC. Employees are remunerated according to their performance and work experience. On top of basic salaries, discretionary bonus and share option may be granted to eligible staff by reference to the Group's performance as well as individual's performance. The total staff cost (including remuneration of the Directors and mandatory provident funds contributions) for the year ended 31 October 2021 amounted to approximately HK\$15,767,000 (2020: HK\$15,206,000). The dedication and hard work of the Group's staff during the year ended 31 October 2021 are generally appreciated and recognized.

## MATERIAL ACQUISITIONS OR DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the year ended 31 October 2021, the Group did not have any material acquisitions or disposals of subsidiaries and affiliated companies.