



Management Discussion and Analysis

FINANCIAL REVIEW

During the year under review, the Group has recorded an outstanding performance in terms of turnover and profit, reaching HK\$145,959,000 and HK\$33,565,000 respectively.

Upon the listing on the Stock Exchange on 12 April 2001, 72,000,000 new shares were issued and allotted a price of HK\$0.5 each, which was 1.13 times oversubscribed. This successful issue of new shares raised net proceeds of approximately HK\$25.5 million, and will be applied as follows:

- as to approximately HK\$17 million to acquire plant and machinery, the majority of which will be automatic oil hydraulic machines used in the production of melamine products, for the expansion of the Group's production facilities; and
- as to the balance of approximately HK\$8.5 million as additional working capital of the Group

As at 31 March 2001, the Group had net current assets of approximately HK\$44,082,000, which comprised cash and bank balances of approximately HK\$5,345,000, trade debtors of approximately HK\$14,664,000, inventories of approximately HK\$12,649,000, deposits and other receivable of approximately HK\$11,424,000.

Save as those disclosed in the financial statements, there are no mortgages, charges, debentures, other loan capital or bank overdrafts, loans or other similar indebtedness of hire purchase commitments or any guarantees or other material contingent liabilities during the year under review.

PRODUCT RANGES

The Group offers an extensive range of products made of melamine and silicon rubber. In compliance with FDA Title 21 and the EEC Directive regulations, the products meet the safety and health standards.

(a) *Tableware*

The Group's major melamine tableware products include trays, plates, bowls, cups, spoons, forks and children's dining sets, etc.

(b) *Ashtrays*

Ashtrays produced by the Group are sold as premium and/or gift items for international cigarette or beer manufacturers.

(c) *Soap dishes*

Silicon rubber is the main component of the soap dishes manufactured by the Group.



PRODUCT RANGES *(Continued)*

(d) Clocks

Melamine cases for clocks, which can be classified as premium and/or gift items are also one of the Group's products.

(e) Silicon rubber keypads

Silicon rubber keypad is the key component of electronic calculators, databank, electronic organizers, remote controls for audio-visual equipment and mobile telephones.

PRODUCTION FACILITIES

Though headquartered in Hong Kong, the Group's production facilities are based in Dongguan, the People's Republic of China (the "PRC") under a processing agreement (and the extension agreement, the memoranda of understanding and the supplemental agreement) between the Group and an independent PRC party. The factory in Qiao Tou Town (the "Qiao Tou Factory"), with a gross floor area of 10,708 sq.m, is equipped with 53 automatic oil hydraulic machines for melamine products and 20 machines for silicon rubber products and their utilization rate amounted to approximately 95% and 58% as at 31 March 2001.

QUALITY CONTROL

Besides keeping abreast of the latest market development to produce products which are welcomed by customers, the Group also emphasizes quality control.

It has established a quality control team in the PRC to ensure that the Group's prescribed quality standards are met on a day-to-day basis. The general production manager, sales and marketing team of the Group are also responsible to monitor the product's quality.

Quality of the raw materials and accessories also has to be ensured so that the products can satisfy the quality requirement prescribed by the Group. These materials and accessories are randomly tested, followed by the regular quality checks at various stages of production.

INVENTORY CONTROL

To capture the expected increase in sales volume of the Group, safety inventory level is raised to reduce to the risk production interruption. The inventories are stored in the warehouse of the Qiao Tou Factory, under the regular checks conducted by the financial controller.

MARKETING STRATEGY

The Group is committed to maintain a long-term and harmonious relationship with its customers, places great emphases on interacting with its customers in product design and development. The marketing staff are teamed up according to customer type and maintain a close ties with the customers in the course of product development. To know more about the latest trends of household products, the Group's marketing team collects information through various channels, such as by attending exhibitions and trade fairs.



RESEARCH AND DEVELOPMENT

To strengthen the Group's market position as the industry leader in melamine and silicon rubber products, the Group is devoted to putting efforts into research and development. Only by keeping in line with the technological trends, products could survive and succeed in this fast-changing and competitive market for melamine and silicon rubber products.

Appropriate technology is applied to produce innovative products which are in line with technology changes, changing customer demand and increasing production efficiency with the aim to lower the production costs.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's cash and bank balances are mostly held in Hong Kong dollars. The Group's borrowings are made in Hong Kong dollars, approximately 3% of such borrowings bear interest at fixed lending rate. As at 31 March 2001, the Group's borrowings amounted to approximately HK\$14,935,000, out of which approximately 35% is repayable within one year. The gearing ratio of the Group as at 31 March 2001 calculated as a ratio of total debts to total assets is approximately 17%. Net current assets as at 31 March 2001 was approximately HK\$13,203,000 and current ratio was maintained at a healthy level of approximately 143%. As the Group's transactions are mostly settled by Hong Kong dollars, Renminbi, or Hong Kong dollars pegged currencies, no use of financial instruments for hedging purposes is considered necessary.

As at 31 March 2001, the Group's leasehold land and buildings and investment property carrying values of approximately HK\$5,496,000 and HK\$1,228,000, respectively, were pledged to secure general banking facilities granted to the Group.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2001, the Group had 11 staff working in Hong Kong. In addition, 695 workers are employed pursuant to the Group's processing arrangement with an independent third party.

The Group remunerates its employees largely based on industry practice. Remuneration packages comprised salary, commissions and bonuses based on individual merits.