

BUSINESS REVIEW AND PROSPECTS

The consumer electronics business of the Group continued to operate under unfavourable external environment during the year. Faced with receding orders from clients and inflating cost of materials, the management downsized the operations to contain losses in the second half of the financial year. The operations in China and Hong Kong were also restructured to enhance efficiency and reduce operating costs. As expected, the newly acquired Cutters Business contributed positively to the Group in terms of cash flow and profits in the three months ended 31st March, 2001.

There are already some signs that the performance of the Group has improved since the beginning of this year. The Cutters Business will continue to generate cash inflow and profits for the Group in the future. The performance of the consumer electronics business is also likely to improve with increased orders and broader client base. Several new OEM products (mostly educational learning aids) have been developed in conjunction with existing or new clients. More workers have been recruited and our production capacity has been expanded recently to cope with the surging new orders from clients. Additional resources have been allocated to development of new ODM products so that the production capacity will be better utilised to generate revenue during the off-peak seasons.

The management has tightened credit control and managed to improve the collection of receivables. Various cost savings have been achieved by exploiting the economies of scale after the acquisition and profit margin has improved. We are confident that the Group's performance will improve markedly in the near future.

GROUP'S LIQUIDITY AND FINANCIAL RESOURCES

As at 31st March, 2001, the current and non-current liabilities of the Group amounted to HK\$57 million (2000: HK\$41 million) and HK\$4 million (2000: HK\$4 million) respectively. The HK\$16 million increase in current liabilities over last financial year was mostly accounted for by the increase in account payables and the increase in advances from Twin Base and Mr. Chong.

Recognising the risks associated with high gearing and low liquidity, the management has taken several steps to improve the liquidity position and financial structure of the Group. A share placement was completed in early July, which has helped lower the gearing ratio of the Group. Besides, some progress has been made in disposal of aged inventories and recovery of doubtful debts recently. The management has also started negotiations with banks to re-schedule the short-term bank loans and these negotiations are expected to be finalised by September this year. The liquidity of the Group is likely to improve continuously.

ACQUISITION OF CUTTERS BUSINESS

Pursuant to an agreement dated 19th September, 2000 entered into amongst the Company, Twin Base Limited (“Twin Base”), a company in which Mr. Chong Sing Yuen (“Mr. Chong”) has a beneficial interest, and Mr. Chong (the “Cutters Business Agreement”), the Company acquired from Twin Base the business for the manufacture and sales of snap off blade cutters comprising, in terms of separable net assets, the office premises with two carparks, certain property, plant and equipment and all of the inventories of Twin Base as well as the net assets of Tung Hing Plastic (Panyu) Co., Ltd. (the “Cutters Business”). The consideration was satisfied by issuing 1,200,000,000 new shares of HK\$0.01 each in the Company. In accordance with the terms of the Cutters Business Agreement, Twin Base guaranteed that the amount of net tangible assets value of the Cutters Business would be at least HK\$12,152,000 at the completion date of the Cutters Business Agreement. The acquisition of the Cutters Business was completed on 31st December, 2000 with a net tangible assets value of the Cutters Business amounting to approximately HK\$9,163,000. The shortfall of approximately HK\$2,989,000, being the difference between the net tangible assets value of the Cutters Business as at the completion date of the Cutters Business Agreement and the guaranteed amount of HK\$12,152,000 as stated in the Cutters Business Agreement, had been recorded as an amount receivable from Twin Base in the balance sheet at 31st March, 2001.

Pursuant to the Cutters Business Agreement, Twin Base has guaranteed the audited profit after taxation but before extraordinary items of the Cutters Business for the year ending 31st December, 2001 (the “Guaranteed Period”) will not be less than HK\$10,000,000 (the “Guaranteed Profit”). In the event that the audited profit after taxation but before extraordinary items of the Cutters Business for the Guaranteed Period falls short of the Guaranteed Profit, Twin Base will pay to the Company the liquidated damages calculated on the basis of 4.5 times the shortfall of the Guaranteed Profit.

SHARE CAPITAL

At the special general meeting held on 30th June, 2000, all resolutions relating to the proposed capital reduction and change in the board lot size of the shares in the Company, which involving reduction of the nominal value of each of the issued shares of HK\$0.05 each in the Company by HK\$0.04 to HK\$0.01; cancellation of the share premium of the Company; setting off the surplus arising from such reduction and cancellation against the deficit of the Company; and the change in board lot size from 5,000 shares to 50,000 new shares upon the capital reduction taking effect were approved by the shareholders, and all other conditions of the capital reduction had been fulfilled. Accordingly, the capital reduction has become effective since 30th June, 2000. The change in board lot size of the new shares has become effective from 3rd July, 2000.

Further to the approval of the necessary resolutions at the special general meeting held on 17th November, 2000, all the conditions under the conditional sale and purchase agreement dated 19th September, 2000 between the Company, Twin Base and Mr. Chong in relation to the sale and purchase of the Cutters Business have been fulfilled. Accordingly, the completion took place on 31st December, 2000 with the allotment of 1,200,000,000 consideration shares of HK\$0.01 each to Mr. Chong as nominee of Twin Base.

A placing agreement was entered into on 14th June, 2001 between the Company and NSC Securities (Asia) Limited (“NSC”) pursuant to which the Company will place through NSC, a total of 300,000,000 shares of HK\$0.01 each to independent investors, being independent third parties at a price of HK\$0.029 per placing share, on a best effort basis. The 300,000,000 placing shares of HK\$0.01 each at HK\$0.029 were allotted and issued to the subscribers on 5th July, 2001.

In February, June and July 2001, an aggregate of 31,400,000 shares of HK\$0.01 each in the Company were issued resulting from the exercise of share options by certain directors and employees.

SHARE OPTIONS

Pursuant to the share option scheme of the Company which became effective on 10th September, 1992, share options in aggregate of 105,000,000 shares of HK\$0.01 each were granted to certain directors at a subscription price of HK\$0.027 per share on 25th November, 2000. Share options in aggregate of 99,150,000 shares of HK\$0.01 each were granted to certain directors and employees at a subscription price of HK\$0.027 per share on 18th June, 2001.

In February, June and July 2001, share options in respect of 29,000,000, 1,400,000 and 1,000,000 shares of HK\$0.01 each were exercised by certain directors and employees respectively at a subscription price of HK\$0.027 per share.

LEGAL PROCEEDINGS

On 9th December, 1997, the Company entered into placing and underwriting agreements with ASG Capital Limited and ASG Brokerage Limited (“ASG”) (the “Agreements”) which agreed to place and underwrite an aggregate of 100 million new shares in the Company to independent investors at a placing price of HK\$0.40 per share. However, ASG failed to fulfill its placing and underwriting obligations in accordance with the terms of the Agreements. The Company has instituted legal proceedings against ASG and the proceedings are being continued.

EMPLOYEES

The Group has approximately 630 employees. Most of them are working in the Group’s manufacturing plant in Panyu, PRC. Employees are remunerated on a performance basis with reference to market practices. Share option scheme is adopted to encourage personal commitment of employees to achieve our business goals.

By Order of the Board

Chong Sing Yuen

Chairman

24th July, 2001