CHEN-PET Preform System for PET Bottles

The latest version of the CHEN-PET preform system is an extremely successful and high value-added product offered by the Group. It targets the rapidly-growing world-wide market for PET packaging and signifies the Group's entrance to world-class standard in mould manufacturing and automation. A US$500,000 average price-point for this system with different sizes and models, makes this winner of the 2000 CMA Machinery and Equipment Design Award, a very strong contender in the world PET market.

SM Series Large Tonnage Toggle Injection Moulding Machine

The SuperMaster (SM) series of large tonnage plastic injection moulding machines boasts a clamping force starting from 600 tons and is designed primarily for the production of automobiles and large-sized household appliances. The very competitive pricing of this series is targeted at the developing countries market. This new series of product is certain to become the spearhead for further growth in conventional applications.

SM Series Hydraulic Clamping Injection Moulding Machine

The SuperMaster (SM) series of hydraulic clamping plastic injection moulding machines is a key value-added development project for the Group. Targeting high-end customers, this new series features a hydraulic system that delivers steady and accurate clamping force, and fully-automatic mould adjustment which significantly reduces mould wear and is perfectly suited for production of small, high-precision plastic components.

MANUFACTURING BASE

In order to further penetrate the Mainland China market and control manufacturing costs, the Group had completed relocation of its entire production base from Hong Kong to Shenzhen, China during the financial year.

The Chen Hsong Industrial Park consists of a total land area of 560,000 m^2, with approximately 120,000 m^2 developed during the completed phase I construction. This new base will be the flagship of the Group's manufacturing and development capabilities in the future.

Furthermore, the Group had commenced construction of an assembly plant at the Beilun Harbour of Ningbo City in the province of Zhejiang. This assembly plant, with an anticipated start-up date of August 2001, consists of a floor area of over 10,000 m^2 and will be primarily devoted to the manufacturing of large tonnage plastic injection moulding machines for the Eastern and Northern China markets.

QUALITY CONTROL

To signify the Group's never-ending devotion to quality improvements, the Taiwan subsidiary company (Chen Hsong Machinery Taiwan Company, Limited) was ISO 14001 certified this year in addition to starting its TQM (total quality management) program. Valuable experience gained by the Taiwan subsidiary will subsequently be introduced into other manufacturing bases of the Group.

HUMAN RESOURCES DEVELOPMENT

As at 31 March 2001, the Group employs approximately 2,370 staff. Under the aid of an HR specialist consultant, the Group is aggressively introducing new, modern management practices. Together with the Group's emphasis on training, it represents a commitment to modernise all aspects of HR practices including recruitment, training and compensation. One early proof is the granting of stock options pursuant to the share option scheme of the Company to senior management of the Group this year as the beginning of a program to attract and retain high-level talents.

re-structure

......the Group has started regrouping of subsidiaries' distribution channels in the world-wide market in order to coherent sales networks, consolidation of strategic resources, and establishment of new strategic bases......

ORACLE ERP SYSTEM

During this year the Group started implementation of the Oracle ERP System (Oracle Applications Suite) in the three major operating bases of Hong Kong, Shenzhen and Shunde. As at April 2001, modules already on-line included BOM (bills of material), Procurement, Inventory, Sales Order Entry and portions of the Financial module. When fully implemented, expected late 2001, this system will greatly assist in the Group's quest for more systematic and efficient cost control and quality management.

LIQUIDITY

As at 31 March 2001, the Group has cash and cash equivalents (excluding fixed deposits with original maturity of more than three months when acquired) of HK$514,103,000 (2000: HK$356,628,000), an increase of HK$158,439,000 over the last year. The increase mainly comes from the profit contribution and additional bank borrowings raised during the year. As at 31 March 2001, the Group has outstanding short-term bank borrowings of RMB100,000,000 and NTD570,000,000, the total of which equivalents to

HK$227,720,000, an increase of HK$72,413,000 over the last year. The bank borrowings principally comprised of loans on a floating rate basis raised by the Group's subsidiaries in the PRC and Taiwan for working capital purpose. The Group endeavours to hedge its foreign currency investments with an appropriate level of borrowings in those currencies in order to manage the Group's exposure on foreign exchange. The Group has consistently maintained a healthy financial status and a sufficient liquidity to meet its commitments and funding requirements.

The Group adopts conservative treasury policies in cash management and risk control. For synergies, efficiency and control the Group operates a central cash management system for its subsidiaries. Cash is placed in short term deposits denominated in either Hong Kong or United States dollars.

INTEREST COVER AND GEARING RATIO

As a result of the increase in bank borrowings, the total interest payment of the Group for 2001 rose to HK$13,932,000. The interest expenses coverage was 14.5 times (2000: 17 times) and maintained at a satisfactory level. At the year end date, the Group had a net cash balance of HK$286,383,000. Therefore, the Group has zero gearing ratio (net debt to total shareholders' fund).

GROSS PROFIT MARGIN

For the financial year ended 31 March 2001, the gross profit margin of the Group increased from 33% in previous year to 36%. The growth of gross profit margin is due to the enhanced production efficiency, resulting from the Chen Hsong Industrial Park's improvement in production process and methodology; as well as various subsidiaries' improvement in purchasing.