

MANAGEMENT DISCUSSION AND ANALYSIS

Results

The Group's consolidated turnover for the six months ended June 30, 2001 was HK\$119 million, a decline of 6.5% from the corresponding period last year. Profit attributable to shareholders also decreased by 5.2% to HK\$23 million. The combined effect of the decrease in profit and increase in number of issued shares during the period lowered earnings per share to 1.10 cents per share (2000: 1.35 cents).

Business Review

During the period, demand for the Group's packaging products remained stable in the European market and had seen considerable growth in the Hong Kong market. The major impact on the Group's turnover in packaging products came from the decrease in the U.S. market as compared to the corresponding period last year.

The slowdown in the U.S. economy had affected consumer sentiment and in turn demand for the Group's products. The downturn of the Group's performance in the U.S. market was also partly attributable to the change of vendor policy in some of our customers. Analyses showed that there is a growing trend among our U.S. customers to place orders for the Group's products directly through their buying offices located in Hong Kong, which were previously placed through their U.S. counterparts, thereby shifting orders from the U.S. market to the Hong Kong market.

Despite the decrease in turnover in the first half of the year, orders for July to September were largely in line with past trends and with our sales forecast.

Distribution costs decreased by 27.5% to HK\$3.6 million as a result of sufficient provision for doubtful debts as at June 30, 2001 and accordingly no additional provision was required for the current period.

Other revenues doubled to HK\$7.67 million as a result of interests from bank deposits and interest income in respect of investment in a convertible note with a face amount of HK\$28 million subscribed during January 2001.

On June 22, 2000, the Group issued a convertible note with a principal amount of HK\$150 million and started to incur interest expenses thereon. This led to an inflated finance cost of HK\$3.77 million this period as compared to HK\$184,000 in the corresponding period last year, during which period interest on the convertible note payable only accrued for a few days to June 30, 2000.

Administration expenses decreased by 6.2% to HK\$11.9 million during the period (2000: HK\$12.6 million) mainly due to the reduced number of salaried directors.

With the completion of the industrial complex in Zhongshan, the P.R.C., the metal product workshop had been relocated to the new complex in July 2001. Other production lines will be relocated to the new complex in orderly phases in accordance with our expansion plan.

Prospects

With the relocation and centralisation of the Group's production facilities in one industrial complex in Zhongshan, synergy effects and savings are expected to be attained. With the benefit of stringent cost control measures, the management is confident that the Group's results will improve in the second half of the year.

To maintain its competitiveness, the Group will continue its efforts in enlarging its customer base and market share and in actively exploring new markets as well as new lines of products. To achieve this goal, the Group will increase production efficiency, maintain flexibility in production to meet changes in customers' demand specifications, short delivery lead times and good quality at reasonable prices.

Liquidity and Financial Resources

The Group's financial position remained healthy. At June 30, 2001, there were HK\$269.7 million in cash reserves, and sufficient unused lines of credit available from financial institutions.

The Group had no bank borrowings as at June 30, 2001.

Whilst sales of the Group were denominated in Hong Kong and US dollars, purchases of raw materials were in majority in Hong Kong dollars. Most bank deposits were maintained in Hong Kong dollars. Hence, the Group's exposure to foreign exchange risk was minimal.

Pledge of Assets

At June 30, 2001, the Group pledged its leasehold properties with an aggregate carrying value of approximately HK\$4,000,000 as security for general banking facilities granted to the Group.

Employees

At June 30, 2001, the Group had about 50 employees in Hong Kong and a workforce of 3,200 in the PRC.

The Group's emolument policies are formulated on the performance of individual employees and on the basis of the salary trends in various locations in which the Group operates and this includes basic salary, bonus, provident fund scheme, discretionary performance bonus and share options where appropriate.

Future Plans for Material Investments

At June 30, 2001, the directors were of the opinion that the development costs in respect of the construction of factory premises which will be further incurred by the Group amounted to approximately HK\$2,813,000 (12.31.2000: HK\$10,521,000), of which approximately HK\$2,799,000 (12.31.2000: HK\$8,646,000) were contracted for but not provided in the financial statements.

In July 2001, the Group invested in a convertible note issued by a listed company in Hong Kong amounting to HK\$25,000,000.

Gearing Ratio

The Group had a convertible note with a principal amount of HK\$150,000,000 in issue as at June 30, 2001, details of which were set out in the circular to shareholders dated May 26, 2000. The Note is unsecured, bears interest at 5% per annum, accrued on a daily basis, calculated on the principal amount and payable every six months in arrears. The ratio of the convertible note payable to total equity was 32.4% at June 30, 2001.

Use of Proceeds

The use of proceeds in relation to capital raised during the period and in the previous year was as follows:

	Balance at 12.31.2000 <i>HK\$'000</i>	Amount raised in the period <i>HK\$'000</i>	Applications <i>HK\$'000</i>	Balance at 6.30.2001 <i>HK\$'000</i>
New issue of shares				
– cost of construction, fitting out and equipment purchase in relation to new industrial complex	13,790	–	8,649	5,141
Issue of convertible note				
– investment	100,000	–	–	100,000
Issue of bonus warrants				
– working capital	–	526	526	–