

BUSINESS REVIEW AND OUTLOOK

The Group's profit attributable to shareholders for the Period was HK\$18,666,000, representing a 31% decrease from the previous corresponding period. Turnover for the Period decreased approximately 10% to HK\$1,253 million.

The market remained competitive and the world economy sluggish during the Period. Decreases in worldwide demand led to a decrease in product selling prices as well as raw material costs. However, the Group's broad customer base helped to maintain overall turnover. Sales to the United States accounted for approximately 40%, sales to Europe accounted for approximately 35% and Asia accounted for 25% of total turnover. Profit margin of regular items was further driven down by the low demand. Whereas new and higher end products can still enjoy a higher margin by making use of the lower raw materials cost. The Group's new products such as MP3 players, DVD players, CD-RW, internet set top box and satellite receivers were all launched during the Period. It is expected that the increase in sales of these products in future will greatly improve the Group's financial performance.

While the Electronic Division is suffering a tough time, the Group is pleased to see the continuous growth of the business in the Home Appliance Division. Turnover for the division increased to approximately HK\$40 million during the Period and is expected to further increase in the years ahead. Products have been diversified to include air purifiers, steam stations, electric ovens as well as various new models of coffee making machine.

As a leading consumer electronics manufacturer, the Group continues to invest in the research and development of new and constantly improving products. During the Period the Group opened two new R&D centres, one in Japan and the other in Shenzhen. These two centres support and compliment our existing R&D departments in Hong Kong and the Dongguan factory. Experienced Japanese and Chinese engineers have been recruited for these facilities. The Japan office mainly deals with new product development while the Shenzhen office mainly provides software support solutions.

The new factory block 9 and dormitory saw their final stages of construction being completed during the Period. Total production area now exceeds 1,500,000 square feet, an increase of almost 50% as compared to the year 1999. Production capabilities have also been greatly enhanced as a result of the purchase of additional sets of SMT (Surface Mounted Technology) machines and automated insertion machines. The Group now operates 18 fully automated production lines, as compared to 6 in the year 1999. These production lines not only increase production efficiencies and improve product quality, they will also ensure the manufacture and production of the next generation of digital products.

Four of six heavy oil electric generators have been installed and are now fully operational. The remaining two generators will be installed early next year. With the much cheaper fuel oil available, electricity costs have been reduced by nearly HK\$1 million a month. The investment is expected to return within the next three to four years.

As at 30 September 2001, the Group had bank balances and deposits totaling HK\$120 million. Lower balances were maintained as compared to last corresponding period as most of the budgeted capital expenditure has been paid for and we do not expect any significant capital expenditure next year. Unutilised short term and long term bank facilities amounted to HK\$250 million.

As at 30 September 2001, the Group had 125 staff stationed in Hong Kong and 9,500 staff and workers working in the PRC factories. Total salary and wages amounted to approximately HK\$63 million for the Period. The Group provides year end double pay, discretionary bonuses, a provident fund scheme, medical insurance and training. Gearing ratio was 0.63 (31 March 2001: 0.47) calculated using all outstanding loans divided by the capital and reserve.

During the last two years, the Group has seen a consolidation period, taking the opportunity to expand production capacities, improve production capabilities to cope with the needs of the future, carry out thorough review of production efficiencies and enhance product research and development. Although there is no indication of when the recession will be over, the Group is confident that it will benefit from the many opportunities to flourish once the recession is over.