

## **BUSINESS REVIEW AND OUTLOOK**

The Group reported a turnover of approximately HK\$237.4 million for the period under review as compared to approximately HK\$239.6 million for 2000/2001. Profit before taxation and profit attributable to shareholders amounted to approximately HK\$13.5 million and HK\$11.0 million as compared to approximately HK\$20.3 million and HK\$13.0 million for 2000/2001.

Notwithstanding the sluggish market conditions, turnover during the period under review remained approximately the same as the corresponding period in 2000/2001. The Group continued to achieve growth in revenue in the overseas and PRC markets as a result of the marketing efforts in such areas. However, revenue recorded in the local market during the period under review was adversely affected by the intense competition within the industry. The Group had to compete with local competitors who had adopted a price-cutting strategy under the difficult operating environment in order to secure customers' orders. Thus, the growth in turnover of the overseas and PRC markets was compromised by the decrease in turnover of the local market as compared to the corresponding period in 2000/2001.

Meanwhile, notwithstanding the price-cutting pressure, the Group remains committed to maintaining the quality of its products. Thus, the profit margin for the period under review was adversely affected. Nevertheless, the Directors believe that the Group's commitment to maintain the quality of its products will enable it to strengthen its market position and its relationship with its customers in the long term.

To alleviate the price-cutting pressure during the period under review, the Group imposed more stringent cost control programmes to further reduce expenses. The expenses relating to sales and distribution and administration were reduced by approximately 3% and 12% respectively as compared to the corresponding period in 2000/2001. The finance cost was also reduced as the Group was able to take advantage of the reduction in interest rates as compared to the corresponding period in 2000/2001.

There was a significant reduction in taxation for the period under review as compared to the corresponding period in 2000/2001. During the previous corresponding period, there was an adjustment to increase the taxation provision to cover an under-provision of prior year taxation. Accordingly, in the absence of such adjustment, the taxation for the period under review was substantially lower.

Looking ahead, the Directors are optimistic about the long term prospects of the local and PRC markets following the accession of China to the World Trade Organisation. To better position the Group to meet the expected growth in demand from these markets, the Group has embarked on an expansion programme to further develop its production facilities in the PRC. The second phase expansion of the plant in Shanghai with a gross floor area of approximately 90,000 square feet was completed as scheduled in March 2001. Manufacturing operation has fully commenced in the newly expanded facilities in the Shanghai plant during the period under review. The Group has also acquired a plot of land within a short distance from the existing plant in Dongguan in February 2001. The land will be used for future development of production facilities. The first phase of construction of warehouses and factory buildings, which will have a total gross floor area of approximately 280,000 square feet to be financed by working capital, is currently scheduled to be completed in early 2002. Given the expected increase in demand from the local and PRC markets following China's accession to the World Trade Organisation and the continual increase in sales orders from the overseas market, the Directors are confident that the completion of these buildings will better position the Group to meet its long term operational requirements and will further improve the competitiveness of the Group for future growth.