

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30th September, 2001 (2000: nil).

BUSINESS REVIEW

During the six months ended 30th September, 2001, the Group recorded a turnover of approximately HK\$193,545,000, representing a decrease of approximately of 11.1% from previous year. Net loss attributable to the shareholders was approximately HK\$717,000 as compared to last year's net profit of approximately HK\$7,516,000. This was mainly due to the price reduction resulted from keen competition which narrowed our gross margin to 7.9% from 9.9% of the same period in 2000 despite the measures on the control of operation costs had been taken.

During the period under review, the business environment was worse than that of last year. The US economy was seriously hit by the event of 11th September, which had a significant impact on the Group's business as the US provides the major market to the Group's customers.

Throughout the period, the Group had continuously controlled its production costs and overhead. However, owing to the price reduction as a result of severe competition from our rivals and the event of 11th September, and the provision for bad and doubtful debts of approximately HK\$2,831,000, the Group recorded a net loss of approximately HK\$717,000 for the period.

During the same period, the Group spent approximately HK\$11,600,000 on additions to property, plant and equipment to upgrade its factory and production facilities, for the purpose of enhancing its productivity and its product quality. The continuing capability of the Group to generate sophisticated products with competitive prices is created and driven by its viable production management policy which is supported by advanced production facilities.

On 4th September, 2001, the Board put forward proposals under which the shareholders were invited to consider approving the Capital Re-organization and By-law Amendments, the details of which were set out in the circular dated 29th September, 2001. The above proposals had been approved subsequently by the shareholders in the special general meeting held on 22nd October, 2001.

Subsequent to the period ended 30th September, 2001, the Company announced share placing, pursuant to which, 322,200,000 shares had been issued at the price of HK\$0.05 per share on 29th November, 2001. It was intended that approximately 50% of net proceeds would be used for repayment of indebtedness to financial institutions and the remaining balance for general working capital. The Board considered that the placement would increase the liquidity of the Company's shares in the stock market, and would also improve the financial strength and liquidity of the Group.

PROSPECTS

Taking into account the impact of the tragic event on 11th September which has further dampened the world economy, the business environment in the second half of the year is expected to be highly competitive and more difficult. The Board believes that the Group's business will not be significantly improved in the near future, although the benefit from the enhanced production facilities will be steadily realized.

In view of this unprecedented difficult business environment, the Group will continuously focus in cutting costs, rationalizing its operations, pursuing a cautionary credit policy for its customers and improving product quality in order to achieve a better return for its shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30th September, 2001, the Group's shareholders' equity amounted to HK\$291,079,000, while total debts came to HK\$25,000. The ratio of total debts to shareholders' equity is immaterial and the current ratio is 3.1. Net cash on hand was approximately HK\$31,384,000. The Board believes that the Group's sound and healthy financial position will enable it to discharge its debts, finance its operation in such difficult and competitive business environment and explore other business development opportunities.

STAFF AND REMUNERATION POLICIES

As at 30th September, 2001, the Group had approximately 810 employees. The Group mainly determines staff remuneration in accordance with market terms and individual qualifications.

The Company maintains a share option scheme, pursuant to which share options are granted to selected eligible executives, with a view to provide senior management with an appropriate incentive interest in the growth of the Group.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

At 30th September, 2001, the interests of the directors and chief executives and their associates in the shares of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of interests) Ordinance ("SDI Ordinance") were as follows:

	Number of shares held	
	Personal interests	Other interests
Mr. Li Man Ching	—	682,310,000
Ms. Li Mei Lin	—	682,310,000
Mr. Li Man Shun	—	682,310,000
Mr. Li Man Tak	23,430,000	682,310,000

Note: Mr. Li Man Ching, Ms. Li Mei Lin, Mr. Li Man Shun and Mr. Li Man Tak beneficially own 24,300 shares, 22,500 shares, 21,600 shares and 21,600 shares, respectively, in Rayten Limited, representing 27 per cent, 25 per cent, 24 per cent and 24 per cent, respectively, of the issued share capital of Rayten Limited, which in turn owns 682,310,000 shares of HK\$0.10 each in the Company.