MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group's turnover for the six months ended 31 December 2001 (the "Reporting Period") decreased by approximately 17.2% to HK$72,200,000 as compared with the turnover for the six months ended 31 December 2000 (the "Corresponding Period"). The drop in turnover was mainly due to the decrease in sales made in Asia, the People's Republic of China (the "PRC") and Europe, where decrease in sales by 37%, 48% and 28% respectively was recorded. Despite the drop in sales, thanks to the strict cost control policy adopted by the Group and the improvement in operation efficiency of our jointly-controlled entity, Shandong Luneng Plastics & Metal Mfg. Co. Ltd., the Group was managed to turnaround and recorded a profit of approximately HK$3,000,000. The gross profit margin also had improvement, which increased by approximately 1.3% in the Corresponding Period to approximately 26% in the Reporting Period. Though the improvements were trivial, they demonstrate that the Group is gradually recovering from the operating difficulties which it experienced in 2001 due to the closedown of its Dongguan Factory. Signs of recovery were not only detected from the improvement in gross profit margin, but also by the increase in basic earnings per share, where an increase of 16% was recorded. The benefits that brought by our new factory in Longnan County, Jiangxi Province, which include the resumption of the production of high-ended products, the drop in operating expenses, and the improvement in operating efficiency, laid a solid foundation for the Group's future development. The complete closure of the factory in Dongguan also means the Company did not have to incur any extra expenses in the Reporting Period. These all contribute to the better performance of the Group for the six months ended 31 December 2001.

Product Development

During the Reporting Period, the Group continued to work on new product design development. The components of one of these new product designs have conspicuous improvement over the traditional models. While keeping the production cost low, the functionality of the products with new designs is well maintained. This offers the Group a competitive advantage in the market. Our own research and development team will continue to work on design, component development, sample making and modification, and production engineering in order to accelerate production, improve production efficiency and product quality, and diversify product designs.

Market expansion

With the PRC's successful entry into the World Trade Organization, it gives foreign enterprises a favourable environment to sell their products in the PRC in the coming years. In order to capture this opportunity, more resources will be allocated to market expansion in the PRC. The Group will continue to adopt the marketing strategy of matching different products with the different purchasing power in different geographical regions, and to design and manufacture products specializing in meeting the purchasing power of the population of the PRC; deploying sales network in a more efficient way in order to explore the PRC market.

Application of proceeds of new issue

The net proceeds from the initial public offering of the Company amounted to approximately HK$21,300,000. As at 31 December 2001, the Group used approximately HK$7,500,000 for the automation and expansion of the Group's production facilities in Dongguan, approximately HK$3,000,000 for the expansion of the range of the Group's product lines and enhancement of its product development capabilities, approximately HK$1,000,000 for the development of new market, approximately HK$2,000,000 for the development of website for B2B e-commerce, approximately HK$5,000,000 for repayment of bank loans, and approximately HK$400,000 as general working capital. The balance of the proceeds of approximately HK$2,400,000 was used for upgrading facilities for the Group's factory in Shandong.

Liquidity And Financial Resources

As at 31 December 2001, the Group had a total outstanding debt and finance lease obligation of HK$11,666,000 (30 June 2001: HK$11,587,000), of which HK$3,081,000 (30 June 2001: HK$8,355,000) was secured bank loan, HK$6,803,000 (30 June 2001: HK$2,892,000) was secured overdrafts, and HK$1,782,000 (30 June 2001: HK$340,000) was obligation under finance lease. Our gearing ratio was at a ratio of 4.7% (30 June 2001: 4.6%). The computation is based on long-term borrowings of the Group divided by shareholders' fund as at 31 December 2001.

Prospects

The performance of the Group for the past six months was adversely affected by the continued gloomy economic condition in most Asian countries, which were in turned affected by the 911 tragedy in the U.S..

However, since the Group's products are daily commodities, the demand in the market will not fluctuate too dramatically because of the temporary unfavourable economic condition. The Directors believe that the demand in the U.S., Japan and Europe will resume as the economic condition swings back to normal in the future. To lower the geographical risk that Group may suffer due to the economic downturn in its existing markets, the Group has extended its geographical reach to certain developing countries such as the PRC, South Africa, Russia and Latin America. The Directors believe that the sales from these newly developed markets will not only compensate the loss in turnover in its existing markets, but will also be beneficial for the Group to globalize its products.