

MANAGEMENT DISCUSSIONS AND ANALYSIS

TURNOVER AND GROSS PROFIT

Turnover decreased by HK\$195.1 million or 17.17%, to HK\$941.4 million in fiscal 2001 from HK\$1,136.5 million in the prior year. The decrease was mainly attributable to (i) economic slowdown in the PRC market; (ii) the termination of distribution right of Matsushita products; and (iii) temporary suspension of sales of Value Added Tax invoice processors as required by the PRC government because of an important upgrade of the processor's anti-counterfeit control system was in process.

Regardless of the overall decrease in turnover in fiscal 2001, the sales of the Company's principal products i.e. industrial controllers and Stone-OKI invoice printers recorded increases as a result of the Company's sales efforts and increasing varieties of such products distributed. Industrial controllers and Stone-OKI invoice printers represented 59.88% of net sales in fiscal 2001 as compared to 48.06% of net sales in the prior year.

Fee income from technology-enabled value-added services included in turnover increased drastically from HK\$14.0 million in fiscal 2000 to HK\$19.7 million in fiscal 2001, representing a 41.15% increase.

Turnover analysis by operations:

	2001	2000
	<i>HK\$ million</i>	<i>HK\$ million</i>
Manufacture and distribution business (by major products)		
Industrial controllers	368	362
Stone-OKI invoice printers	195	185
Electrical lighting products	45	229
Value Added Tax invoice processors and commercial machinery	19	56
Other products	294	291
	921	1,123
Fee income from technology-enabled value-added services	20	14
	941	1,137

Gross profit decreased by 1.72 percentage point to 10.17% in fiscal 2001 from 11.89% in the prior year. The decrease was mainly attributable to a general decrease in commodity price and keen competition in the PRC market.

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OTHER REVENUE

Other revenue increased by HK\$19.9 million or 83.96% for fiscal 2001 as compared to the prior year. The increase was principally attributable to a compensation amounted to approximately HK\$22.6 million for termination of distribution right from Matsushita Electric Works, Ltd.

DISTRIBUTION COSTS, ADMINISTRATIVE EXPENSES AND OTHER OPERATING EXPENSES

Distribution costs decreased by HK\$13.0 million or 20.46% to HK\$50.2 million for fiscal 2001 compared to HK\$63.2 million for the prior year. As a percentage of turnover, distribution costs decreased slightly from 5.56% to 5.34%.

Administrative expenses for fiscal 2001 were HK\$68.2 million. It was not significantly different from that of prior year. As a percentage of turnover, administrative expenses increased to 7.24% for fiscal 2001 from 6.03% in prior year.

Other operating expenses decreased significantly by HK\$14.1 million or 24.49% from HK\$57.8 million for fiscal 2000 to HK\$43.7 million for fiscal 2001. This was principally attributable to the decrease in provision for obsolete inventories by HK\$10.5 million to HK\$11.2 million in fiscal 2001 and the decrease in provision for bad and doubtful debts by HK\$17.8 million to HK\$10.7 million in fiscal 2001.

OPERATING LOSS

The Company suffered an operating loss of HK\$22.6 for fiscal 2001. As compared with fiscal 2000, operating loss decreased by HK\$8.0 million regardless of the fact that turnover decreased by 17.17%.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary liquidity needs are to fund daily operations and direct investments. At 31st December, 2001, the Company had working capital of HK\$479.1 million, which included a cash balance of HK\$338.4 million, including restricted cash, compared to working capital of HK\$559.3 million, which included a cash balance of HK\$385.4 million at 31st December, 2000.

The current ratio was 2.7 times in fiscal 2001 as compared with that of 2.5 times in fiscal 2000. The decrease in cash and cash equivalents by HK\$51.0 million was due principally to (i) cash used in financing direct investments in media related businesses including investment in Sun Television Cybernetworks Holdings Ltd. ("Sun TV"), a company listed on the Stock Exchange of Hong Kong Limited, and Sun Stone New Media Ltd, and (ii) general working capital requirement.

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LIQUIDITY AND CAPITAL RESOURCES *(Cont'd)*

Inventories decreased by HK\$94.6 million to HK\$155.5 million at 31st December, 2001 when compared to 31st December, 2000 and the inventory turnover in terms of month improved from 2.90 months in fiscal 2000 to 2.88 months this fiscal year. The improvement was mainly attributable to better inventories and procurement control.

The Company had available working capital facilities of HK\$61.7 million in total with various banks at 31st December, 2001. Such banking facilities include letter of credit arrangement, overdraft and other facilities commonly used for manufacturing and distribution company. All such banking facilities bear interest at floating rates generally based on prime lending rates, and are subject to periodic review. At 31st December, 2001, the Company utilized approximately HK\$41.5 million of its credit facilities.

The Company believes that funds to be generated from internal operations and the existing banking facilities enable the Company to meet anticipated future cash flow requirements.

USE OF PROCEEDS

The Company raised approximately HK\$75.6 million net of related expenses from the issue of 65,000,000 new shares of the Company under a private placement on 17th July, 2001. The net proceeds were used as follows:—

- as to HK\$51.6 million to acquire 430 million shares in Sun TV.
- as to HK\$10.2 million being injected in Sun Stone New Media Ltd. as new equity fund, and
- as to HK\$13.8 million for general working capital

The Company raised approximately HK\$234.0 million net of related expenses from the issue of 115,000,000 new shares of the Company under a private placement in 1999. Of the net proceeds, approximately HK\$84.0 million was used for various acquisitions as disclosed in 2000's annual report. During the year, approximately HK\$30.0 million of the net proceeds was used for general working capital. The remaining fund of approximately HK\$120.0 million will be applied for investments in the future.

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FINANCIAL POSITION

At 31st December, 2001, cash and cash equivalents was HK\$285.0 million, while bank borrowing was HK\$52.3 million. The gearing ratio was approximately 6.03% (2000: 7.30%). This reflects a strong financial position for the Group.

DETAILS OF CHARGES ON GROUP ASSETS

At 31st December, 2001, fixed deposits amounted to HK\$50.0 million were pledged with banks as securities against general banking facilities of certain subsidiaries, and fixed deposits of HK\$3.4 million were pledged in respect of a bank guarantee issued to a customer of a subsidiary.

CONTINGENT LIABILITIES

At 31st December, 2001, the Company had provided a counter guarantee for a bank loan of approximately HK\$57.9 million granted to an associate.

HEDGING

As the Group makes its purchases from overseas, it is the Group's policy to enter into foreign exchange forward contract to hedge against foreign exchange fluctuation whenever necessary.

EMPLOYEES

At 31st December, 2001, the Group employed a total of 1,305 (2000: 1,443) employees, of which 1,264 (2000: 1,413) were employed in the PRC and 41 (2000: 30) were in Hong Kong. In addition to receiving salaries and bonus, employees are also entitled to other benefits, including medical subsidies and employer's contributions to mandatory provident fund for Hong Kong staff, and Central Pension Scheme for PRC staff. Share options are made available to certain employees of the Group.