Financial and Operations Review

The following sets out the financial highlights for the year ended 31st March, 2002, with the comparative figures for the corresponding period in 2001.

	2002 **HK$' million**	2001 HK$' million	Change HK$' million	Change %
Turnover	**366**	654	288	44%
Earning before interest, taxation, depreciation and amortisation	**14**	93	79	85%
Depreciation and amortisation	**(18)**	(17)	1	6%
Net interest income	**2**	4	2	50%
Net realised gain on disposal of investments in securities and forfeiture of deposit received for disposal of other investments	**—**	14	14	n.a.
Share of results of associates	**(7)**	—	7	n.a.
Other non-operating items	**(6)**	—	6	n.a.
Loss (profit) before taxation	**(15)**	94	109	n.a.
Taxation and minority interests	**—**	(6)	6	n.a.
Net loss (profit) for the year	**(15)**	88	103	n.a.
Dividends/distributions	**45**	140	95	68%

GROUP OVERVIEW

- The Group's turnover and net loss for the year amounted to HK$366 million and HK$15 million respectively.
- The Group's EBITDA ("earning before interest, taxation, depreciation and amortisation") for the year amounted to HK$14 million.
- With the restructuring exercise entirely completed by 31st March, 2002, a HK$7 million share of losses of associates and a HK$6 million non-operating items had been recorded by the Group for the year.
- The financial position of the Group is still healthy given the poor global economic climate. On 31st March, 2002, the Group had bank balances, deposits and cash of HK$61 million with a total bank debt of HK$1 million, while the Group's net asset value was HK$231 million, with a healthy current ratio of 329%.
- On 20th December, 2001, the directors of the Company had resolved to declare an interim cash dividend of HK$0.08 per share or HK$45 million which had already been paid to our shareholders in January, 2002. However, the directors of the Company resolved not to declare any final dividend for the year ended 31st March, 2002. Accordingly, the total dividend for the year would be HK$0.08 per share or HK$45 million.

BUSINESS REVIEW AND PROSPECTS

Voltage Converter and Rechargeable Battery Business Segments

The financial performance of the voltage converter and rechargeable battery business segments fared less spectacularly compared to last year, mainly due to the following:

- Substantial drop in worldwide demand for traditional linear adaptors;
- Pressure from customers to reduce prices across the board;
- General slow-down of the world economy in the wake of the September 11 World Trade Center terrorist attacks; and
- Initial learning-curve issues associated with diversification of customer base and expansion of product range.

As anticipated in our report last year, the Group's existing core businesses have, this year, faced tremendous pressure from customers worldwide to reduce prices across the board due to a general slow down in sales orders and the continued down-ward slump in global demand for mobile phone and other electrical/electronic products. This has, as your management had foreseen, affected the Group's performance for this year and will likely continue to do so in the near to medium term.

However, your management had already previously established long-range cost-cutting and financial control measures in anticipation of leaner times and the implementation of such measures has certainly helped the Group minimise its loss for this year. Your management is confident that such controls will continue to help the Group stem the worsening impact from negative global market conditions.

We have stream-lined our manufacturing facilities in the PRC and have begun to shift our business focus from an OEM manufacturer of traditional linear adapters to a provider of electronic/electrical manufacturing services ("EMS"). As the term suggests, an EMS provider has a wide variety of engineering and manufacturing capabilities that can offer a one-stop complete package to customers, e.g. from design through to production, assembly, quality control, packaging and shipping services. The Group's facilities in the PRC is equipped with state-of-the-art design, production, quality control, and R&D technology, machinery and equipment. Our production operations are also capable of multiple functions within the manufacturing process e.g. tooling, moulding, plastic injection, and coil winding, that can enable customers to have all components of their electronic/electrical appliance or product literally created under one roof.

Your management is confident that the shift in business focus is the right move forward into the new millennium. Our major customers in the electronics and communications industries continue to merge, consolidate or restructure to drastically reduce cost. They, therefore, now demand a lower-cost, value-for-money alternative to multiple subcontracting, as was the industry practice previously. Giants like Ericsson and Motorola have completely contracted out manufacturing operations to single EMS providers like Flextronics. We believe that this is the market trend and the process of our own internal change is expected to be completed within the next couple of years.

Investment in Climax International Company Limited ("Climax")

Regarding our equity interest in Climax which we had written off completely in 1998, there was no impact on the Group from Climax's results.

As reported last year, our shareholding interest in Climax had been diluted to approximately 1.89% after the completion of the new share subscription in Climax on 11th January, 2001 and the partial market disposal of our Climax shares. Your management continues to vigilantly monitor market and other opportunities for further disposals of our remaining Climax shares to create value for our shareholders.

The Year Ahead

- We will continue to focus on cash flow generation through our new business strategy and optimize our resources through the prudent management of our assets and the enforcement of stringent financial control measures.
- We will continue to be opportunistic in identifying both investment and disposal opportunities as and when they arise with a view to increasing value to our shareholders.
- We remain optimistic that the Group will steadily revert to profitability for the long term once global market conditions begin to improve.

LIQUIDITY AND CAPITAL RESOURCES

The Group maintained a strong liquidity position in the year under review. On 31st March, 2002, the Group had bank balances, deposits and cash of HK$61 million with a total bank debt of HK$1 million, while the Group's net asset value was HK$231 million, with a healthy current ratio of 329%.

The financial position of the Group remains healthy mainly due to the continuous effort in management's implementing prudent and practical financial policies with respect to the operations of the business.

The Group will continue to follow the practice of prudent cash management. Management is comfortable that existing financial resources will be sufficient for future expansion plans. Should other opportunities arise requiring additional funding, management also believes that the Group is in a good position to obtain financing on favorable terms.

Cash Flow from Operating Activities

With the continuous implementation of prudent cash control measures, the Group still generated positive cashflow of HK$57 million from operating activities, though the Group reported a net loss for the year of HK$15 million. The reconciliation of loss before taxation to net cash inflow from operating activities is shown as follows:-

	HK$' million
Loss before taxation	(15)
Non-cash items	24
Share of results of associates	7
Gain on winding up of subsidiaries	(1)
Net interest income	(2)
Change of working capital	44
Net cash inflow from operating activities	57

Cash Flow for Dividend Paid and Interest Income

The net cash outflow from returns on investments and servicing of finance for the year was amounted to HK$71 million, which included the payment of dividends of HK$73 million, setting off with the net interest income received by the Group of HK$2 million.

The payment dividends of HK$73 million included a payment of last year's final dividend of HK$28 million or HK$0.05 per share and a payment of current year's interim dividend of HK$45 million or HK$0.08 per share.

Cash Flow for Capital Expenditure and Corporate Activities

The Group's capital expenditure program was progressed smoothly as planned. During the year, the Group had made a capex investment of HK$9 million which was in fact incurred within the depreciation level of the Group and was 100% financed by the cash internally generated from the operations. With the capital expenditure, the Group would be able to further increase its production capacity, improve quality and expand product variety, which will lay the foundation for the Group's future development.

During the year, the Group entered into a sale and purchase agreement to purchase the remaining 50% equity interest in Pan Electrium Industrial Company Limited ("Pan Electrium"), a then 50% owned associate of the Group, at a consideration of HK$120,000 from our joint venture partner in Pan Electrium. Upon the completion of the sales and purchase agreement, the Group had acquired a net cash inflow in respect of the captioned acquisition of HK$2.2 million. This, together with the cash repayment from Pan Electrium of HK$1.3 million from operating activities, gave rise to a total cash inflow from Pan Electrium of HK$3.5 million.

Treasury Management

On 31st March, 2002, the Group had a sufficient level of secured and unsecured banking facilities from our major bankers with a view to finance the working capital requirements. For exchange risk management, the Group will adopt cautious financial measures to manage and minimize the exchange risk exposure, and in this regard, the Group will normally match the currencies of sales with those of purchase in order to neutralize the effect of currency exposure. Furthermore, the Group will also take appropriate financial actions to ensure that the Group borrowings will be primarily denominated in Hong Kong dollars, while the non-Hong Kong dollar loans will be either directly tied in with the Group's businesses in the countries of the currencies concerned or such loans will be balanced by assets in the same currencies.

Major Suppliers and Customers

For the year under review, sales to the largest customer and the five major customers accounted for 24% and 50%, respectively, of total sales for the year.

Purchases from the largest supplier and the five largest suppliers accounted for 4% and 15%, respectively, of total purchases during the year.

As far as the directors are aware, neither the directors or their associates nor any shareholders or parties acting in concert with them, own more than 5% of the Company's total issued share capital, or had any interest in contracts with any Group's various customers or suppliers mentioned above.

Employees

On 31st March, 2002, the Group employed 539 executive and clerical staff and 1,736 factory workers. The remuneration of such staff and workers are determined by overall guidelines within each industry. The Group has also adopted a discretionary bonus program, share option scheme, medical insurance and personal accident insurance for its various categories of employees. Awards under such programs, are determined annually based on the performance of the Group as a whole and the careful assessment of each employee individually.