BUSINESS PERFORMANCE

Sales were down 23% from last year mainly due to poor worldwide economic situation. The decrease in sales has accelerated in the second half of the financial year after the “911” terrorist attacks in the United States. Approximately 35% of the sales of the Group came from the United States and consumers’ confidence were affected by the uncertainty created by this instance. Despite the adverse situation, the Group took a number of measures in improving efficiency and cutting of costs. These measures proved satisfactorily and as a result gross profit margin increased by 0.4% and administration costs were down by approximately HK$15 million.

Our objective of slowly moving away from manufacturing of the analogue audio products to the higher end digital products proved to be correct. Demand for digital products including video telephones, DVD players, digital satellite receivers and digital amplifiers are very strong this year, these products are expected to be the fastest growing items in the market in the next few years. Our sales for these products this year were HK$533 million as compared to HK$169 million last year. After the spending of much development costs on these new projects, contribution to profit has largely increased from last year, further improvement is expected as we gain more experience in manufacturing these products.

We are encouraged by the continued growth in our home appliances division. Sales increased from HK$49 million to HK$123 million and based on the sales orders on hand up to date, we expect to see further growth in the coming year. Products have gradually diversified into coffee making machine, air purifier, toaster oven, steam station and kettle. In addition to our normal ODM business, the division is now looking at opportunities to expand its business through marketing products directly in the retailing level.

Total sales amounts of the Group for the first two months after year end were approximately HK$265 million, represented more than 50% increase over the corresponding period last year. We expect that the sales for the current year will exceed that of last year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March, 2002, the Group had HK$121 million cash and bank balance and HK$278 million bank borrowings, as compared to HK$48 million and HK$179 million in last year respectively. The bank borrowings included HK$114 million 3 years bank term loans and HK$23 million finance lease contracts are mainly used to finance the acquisition of fixed assets for the last two years. Others are trust receipt loans for trading purpose and are repayable normally within three months. Total of these loans and hire purchase contracts repayable within one year amounted to HK$201 million and HK$76 million are repayable after one year. While major expansion plan has been completed during the year, it is expected that no more bank loans will be needed for the coming year. As at balance sheet date, gearing ratio calculated based on borrowings less bank balances over the net assets of the Group was 0.41 for the year, compared to 0.34 of last year. The cashflow forecast prepared by the Group indicated that the Group will has sufficient fund for the operation of next year without the addition of new term loans or hire purchase contracts.

EMPLOYEES

As at 31 March, 2002, the Group had 122 staff stationed in Hong Kong and 10,200 staff and workers working in the PRC factories. Total salaries and wages amounted to approximately HK$114 million for the year. Salaries and wages are normally reviewed on an annual basis based on performance appraisals and market conditions. The Group provides year end double pay, discretionary bonus, provident fund, medical insurance and training.

CONTINGENT LIABILITIES

During the year, the Hong Kong Inland Revenue Department challenged the appropriateness of the filing of tax returns by the Group on a consolidated basis, rather than on an individual company basis, starting from the years of assessment 1998/99 (the “Prior Years”). The final assessment of the Prior Years had not yet been issued, and the potential tax liabilities cannot be reliably estimated. However, based on information available at the date of this report, the directors are of the opinion that there is no material unprovided tax at the balance sheet date.

Details of other contingent liabilities can be found in note 29 to the financial statements.