BUSINESS REVIEW AND PROSPECTS

For the year ended 31st March, 2002, the Group recorded a turnover of HK$75.3 million (2001: HK$39.9 million), representing an increase of 89% over the previous year. Gross margin improved to 20% (2001: –7%) and the net profit of the Group was HK$1.6 million (2001: HK$25.6 million net loss). Despite the sharp growth in turnover, the administrative expenses fell 9% to HK$13.1 million (2001: HK$14.4 million), evidencing the management's efforts on corporate restructuring and cost control.

The cutter business of the Group continued to perform well and made positive contribution to the Group both in terms of cash flow and profit throughout the financial year. Several new products were successfully launched and the client base continued to expand. The consumer electronics business of the Group performed well in the first half of the financial year. Affected by the gloomy economic sentiment, OEM orders for the consumer electronics business fell sharply after September, 2001. Bearing the non-recurring development costs for the new ODM products, the consumer electronics business was unable to make contribution to the Group during the year.

The management is, however, confident that the consumer electronics business will start to make significant contribution to the Group in the near future. OEM orders have started to surge again since March, 2002. Several new OEM products (mainly beauty care products) and ODM products (mainly computer peripherals) have been successfully developed and are ready for production. The turnover of the consumer electronics business is expected to increase sharply. On the other hand, the cutter business will remain steady and continue to make positive contribution to the Group in the coming year.

The Group's client base is quite well diversified in terms of geographical locations. The Europe segment is likely to remain the largest and the Hong Kong segment is likely to experience high growth in the coming year.

The Group has also successfully concluded two long-term contracts with some third parties to lease out all of its vacant properties in Mainland China and this is expected to have a significant impact on the net profit of the Group.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st March, 2002, the current and non-current liabilities of the Group amounted to HK$55.6 million (2001: HK$56.6 million) and HK$4.0 million (2001: HK$4.0 million) respectively. The amount of net current liabilities was narrowed to HK$18.7 million (2001: HK$33.1 million). The gearing ratio (defined as the percentage of total borrowings to shareholders' funds) rose moderately from 46% to 47% in the year ended 31st March, 2002.

The net current liabilities were mainly attributable to the HK$22 million secured short-term credit facilities granted by several banks in Mainland China. About HK$5.6 million of these short-term facilities was successfully renewed at a lower interest rate in April, 2002. Given that all of these short-term facilities are well secured by the Group's properties in Mainland China and there are obvious improvements in the Group's operation and cash flow, we are confident that these banks in Mainland China will continue to support us by renewing the existing facilities or granting us new facilities. The management is also seeking to refinance these short-term facilities by long-term facilities to reduce liquidity risk further.

To cope with the increasing orders for electronic consumer products, the Group has successfully secured more credit facilities in Hong Kong to facilitate its trading activities. The continuous improvement in sales and profit margin and the conclusion of the long-term leasing contracts for the Group's vacant properties in Mainland China will also help increase the Group's financial resources. From the management's point of view, the amount of financial resources available to the Group is adequate. Additional financing will be considered when the need arises.

INVESTMENT POSITION AND PLANNING

In June, 2002, Tung Hing Products Company Limited ("Tung Hing"), a wholly owned subsidiary of the Company, entered into an agreement with Twin Base Limited, a company wholly owned by Mr. Chong Sing Yuen ("Mr. Chong"), in relation to the purchase of a factory unit and two car parking spaces in the same building (the "Properties") by Tung Hing (the "Acquisition"). The directors intended to fund the HK$3.6 million cash consideration of the Acquisition by obtaining a loan secured by a mortgage over the Properties and to hold the Properties as long-term investment after the completion on or before 15th August, 2002.

The Group's exposure to fluctuations in exchange rates is very limited because it does not have any significant investment position in foreign currencies. Trading and financing activities of the Group are mostly denominated in Hong Kong Dollar, or other currencies which are relatively stable currencies against the Hong Kong Dollar, such as the US Dollar and the Renminbi. The Group also does not have any significant investment position in equities, bonds and financial derivatives.

WARRANTED ASSET VALUE AND GUARANTEED PROFIT OF THE CUTTER BUSINESS ACQUIRED

Pursuant to an agreement dated 19th September, 2000 entered into amongst the Company, Twin Base Limited ("Twin Base"), a company in which Mr. Chong has a beneficial interest, and Mr. Chong regarding the acquisition of the business in the manufacture and sales of snap off blade cutters (the "Cutter Business") from Twin Base completed on 31st December, 2000, Twin Base gave a warranty in favour of the Company that the audited net tangible assets value of the Cutter Business as at the date of completion would not be less than HK$12.152 million. In the event of any shortfall in the warranted net asset value, Twin Base would have to pay to the Company in cash an amount equal to the shortfall to compensate for the liquidated damages. A shortfall of HK$2.989 million was certified and Twin Base paid in cash to the Company in June, 2002 in accordance with the terms of the warranty.

Twin Base also guaranteed the audited profit after taxation but before extraordinary items of the Cutter Business for the year ended 31st December, 2001 (the “Audited Profit”) would not be less than HK$10 million (the “Guaranteed Profit”). In the event of any shortfall in the Guaranteed Profit, Twin Base would have compensate for the liquidated damages by paying to the Company an amount equal to 4.5 times of the shortfall. The Audited Profit was approximately HK$12 million and the Guaranteed Profit was therefore satisfied.

SHARE CAPITAL

The following changes in the share capital of the Company took place during the year ended 31st March, 2002:

A placing agreement was entered into on 14th June, 2001 between the Company and NSC Securities (Asia) Limited (“NSC”) pursuant to which the Company will place through NSC, a total of 300,000,000 ordinary shares of HK$0.01 each to independent investors, being independent third parties at a price of HK$0.029 per placing share, on a best effort basis. The 300,000,000 placing shares of HK$0.01 each at HK$0.029 were allotted and issued to the subscribers on 5th July, 2001.

In May and July, 2001, an aggregate of 8,400,000 shares of HK$0.01 each of the Company were issued resulting from the exercises of share options by certain directors and employees.

SHARE OPTIONS

Pursuant to the share option scheme of the Company which became effective on 10th September, 1992 (the “Existing Scheme”), share options to subscribe for in aggregate 99,150,000 shares of HK$0.01 each with subscription price of HK$0.027 per share were granted to certain directors and employees on 18th June, 2001.

During the year ended 31st March, 2002, an aggregate of 8,400,000 shares of HK$0.01 each were issued to certain directors and employees at a subscription price of HK$0.027 per share due to exercises of share options.

The revised Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) requires any existing or new share option schemes implemented by a company governed by the Listing Rules to reflect the newly imposed requirements stipulated therein. In this regard and as the Existing Scheme is about to expire on 10th September, 2002, a new share option scheme is being considered and will be proposed for shareholders’ approval.

CHARGES ON GROUP'S ASSETS

The Group's investment properties are situated in Hong Kong and are rented out. They have been pledged to a bank to secure credit facilities granted to the Group.

As at 31st March, 2002, approximately 82% (2001: 82%) of the Group's land and buildings in Panyu, the PRC have been pledged to banks to secure credit facilities granted to the Group.

CONTINGENT LIABILITIES

The Group's contingent liabilities as at 31st March, 2002 were Nil (2001: HK$1.0 million) in relation to export bills discounted with recourse.

As at 31st March, 2002, the Company had given corporate guarantees to the extent of HK$9.4 million (2001: HK$20.5 million) to certain banks in respect of credit facilities granted to its subsidiaries.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There were no material acquisitions and disposals of subsidiaries and associated companies during the year.

EMPLOYEES

The Group has approximately 1,000 employees. Most of them are working in the Group's manufacturing plant in Panyu, the PRC. Employees are remunerated on a performance basis with reference to market practices. Share option scheme is adopted to encourage personal commitment of employees to achieve our business goals.

By Order of the Board

CHONG SING YUEN
CHAIRMAN

Hong Kong, 19th July, 2002