



MANAGEMENT DISCUSSION AND ANALYSIS

Business review

The Group reported a profit of HK\$14.7 million for the six months period ended 30 June 2002 as compared to a loss of HK\$4.1 million for the corresponding period in 2001. Turnover for the six months period ended 30 June 2002 was HK\$188.7 million, representing a decrease of HK\$72.3 million or 27.7%.

During the period under review, demand for accessories of telecommunication and computer products continued to slow down. The achievement of turnaround in operating results reflected the implementation of Group's policies in minimizing stock level and rationalization of overhead expenses since last year.

Telephone accessories and power cords

Despite a drop in turnover, the division reported an increase of profit through cost cutting measures. Having enhanced quality control and developed new products with export approvals, the Group's business in power cords will increase in the forthcoming months.

Adaptors and electronic products

The division is restructuring its production and engineering departments. Improvement in production efficiency and material utilization has mitigated the loss due to drop in turnover. Since more new products will be launched, a growth in sales and contribution of profit from the division is expected in the second half of the year.

Printed circuit boards

Sales and operating profit of Dongguan factory has improved during the period under review.

The jointly controlled entity in Shanghai incurred a loss due to severe competition in the supply of printed circuit boards in Shanghai region.

Total turnover of the division dropped as compared to the six months ended 30 June 2001 due to the effect of disposal of an Australian subsidiary and reclassification of the Group's interest in a subsidiary in Shanghai to interest in a jointly controlled entity since the second half of 2001.



MANAGEMENT DISCUSSION AND ANALYSIS (continued)

High precision metal components

The market of high precision metal for computer components both in sales volume and selling price are in downward trend. Turnover dropped slightly which adversely affected the performance of the division in the six months ended 30 June 2002. The division has completed developments of new products and commenced mass production which will increase the turnover and profit of the division in the forthcoming months.

Freight forwarding and delivery services

Warehouse operators continued to cut price to compete for storage services. The Group has merged all its warehousing and transportation between Hong Kong and Mainland China operations. Loss was mitigated due to cost reduction.

Jointly controlled entities – copper wire

The copper wire jointly controlled entity, Hoperise Industrial Limited has initiated its costing measures in order to cope with the market trend. Profit has increased due to increase in sales volume for the period under review.

Issue of convertible bonds

On 30 July 2002, the Group entered into a subscription agreement with a wholly-owned subsidiary of Shougang Holding (Hong Kong) Limited (the “First Subscriber”) and a wholly-owned subsidiary of Cheung Kong (Holdings) Limited (the “Second Subscriber”) pursuant to which a wholly-owned subsidiary of the Company has conditionally agreed to issue and the First and Second Subscribers have conditionally agreed to subscribe, in cash, for the 2.5% convertible bonds due in 2004 with an aggregate principal amount of HK\$200 million (the “Convertible Bonds”). The Company intends to use the net proceeds from the issue of the Convertible Bonds to fund an investment opportunity (a memorandum of understanding in respect thereof was entered into between the Group and an independent third party on 30 July 2002), if materialised, and/or any other possible future investment opportunities and acquisitions, with the remaining for general corporate and working capital of the Group. The subscription agreement was completed on 20 September 2002.





MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Prospects

The Group has consistently endeavoured to streamline overhead expenses and minimized the stock level. The Group has enhanced controls on the manufacturing cost of all divisions on a timely basis on the one hand, and restructured the organization and product mix of the Group on the other hand.

The Group is currently reviewing various investment opportunities which are in line with the existing business operation of the Group with an aim to strengthen the quality of its investment portfolio and to improve the operational efficiency and the overall financial performance of the Group. It is expected the performance of the Group will be improved in the second half of the year.

Liquidity and financial resources

At 30 June 2002, the Group's gearing ratio (total debt divided by equity) and current ratio (current assets divided by current liabilities) are 0.09 (31 December 2001: 0.09) and 2.68 (31 December 2001: 2.60) respectively, which have been maintained/improved as compared to those of last year.

Bank loans increased by approximately HK\$4.8 million to HK\$47.6 million as at 30 June 2002. The Group's borrowings were mostly denominated in Hong Kong dollars.

After taking into account the existing cash resources and unutilised bank facilities, the directors are of the view that the Group can maintain an adequate liquidity position throughout 2002.

Capital structure

There are no movements in the ordinary share capital of the Company during the period.

Contingent liabilities

The contingent liabilities of the Group amounted to HK\$127.4 million as at 30 June 2002 (31 December 2001: HK\$104.8 million), mainly from guarantees for banking facilities granted to a jointly controlled entity which have increased from HK\$98.3 million as at 31 December 2001 to HK\$125.7 million as at 30 June 2002.



MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Employees and remuneration policies

The Group had a total of approximately 3,900 employees as at 30 June 2002.

The remuneration policies of the Group are to ensure the fairness and competitiveness of total remuneration package to motivate and retain existing employees and at the same time to attract potential employees. Remuneration packages are structured in such a way that take into account local practices in various geographical locations in which the Group and its associates operate and these remuneration packages include basic salary, allowances, retirement schemes, service bonus, fixed bonus, performance related payments and share options where appropriate.

INTERIM DIVIDEND

The Board did not declare an interim dividend for the six months ended 30 June 2002 (2001: Nil).

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities (whether on The Stock Exchange of Hong Kong Limited or otherwise) during the period under review.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 30 June 2002, none of the Company's directors or chief executives had any interests in, or rights to subscribe for, the equity or debt securities of the Company or any of its associated corporations as recorded in the register maintained in accordance with Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance").