

Management Discussion and Analysis of Results of Operations

Overview

For the year ended 31 July, 2002, the Group recorded a turnover of approximately HK\$932.63 million (2001: approximately HK\$639.18 million) which represented an increase of approximately 45.91 per cent. as compared to that of the previous financial year. The substantial increase in the Group's turnover was mainly derived from the assembling of electronic products business, which was also the Group's major source of profits, representing approximately 58.46 per cent. (2001: approximately 45.42 per cent.) of the Group's turnover. This was consistent with the expectation of the Directors at the time of the issue of the Company's prospectus dated 28 January, 2002 ("Prospectus") and the strategy currently implemented by the Group.

Profit attributable to shareholders for the year ended 31 July, 2002 showed an increase of approximately 58.00 per cent. from approximately HK\$41.64 million in the previous financial year to approximately HK\$65.79 million. Despite the decrease in the gross profit margin by approximately 1.37 per cent., the Group managed to mitigate the impact of such decrease by implementing various cost control measures. As a result, the percentage of profit attributable to shareholders over turnover for the year ended 31 July, 2002 slightly increased in comparison with the previous financial year.

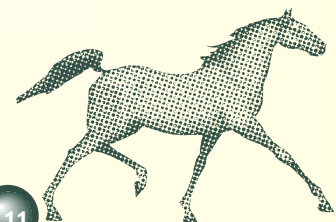


Business and financial review

Turnover and gross profit by business activities of the Group

Plastic injection and moulding business

During the year ended 31 July, 2002, turnover for plastic injection and moulding business was approximately HK\$352.15 million (2001: approximately HK\$310.59 million) and the results of this business segment was approximately HK\$76.61 million, an increase of approximately HK\$8.08 million from the previous financial year. The major increase was attributable to the commencement in production and sales of plastic parts for household electrical appliances.



Management Discussion and Analysis of Results of Operations

Assembling of electronic products business

Turnover for assembling of electronic products business during the year ended 31 July, 2002 amounted to approximately HK\$545.21 million (2001: approximately HK\$290.31 million), representing a significant growth of approximately 87.80 per cent. as compared with year ended 31 July, 2001. The increase was principally owing to the Group's strategy to focus on assembling relatively high-end home audio equipments for its customers. The Directors believe that the Group has gained its customers' confidence in its production quality.

The increase was also contributed by sales to one of the major customers of the Group. This was consistent with the market trend that customers of the Group, particularly those multinational manufacturing companies, would like to consolidate their in-house operations in order to focus on product developments and marketing excellences and thus outsource their manufacturing operations to well established OEM company so that they would be able to remain competitive in the global market.



The results of this business segment for the year ended 31 July, 2002 was approximately HK\$35.50 million (2001: approximately HK\$15.34 million), representing a 131.42 per cent. increase over the previous financial year. The contribution margin has also shown an improvement from approximately 5.28 per cent. in the previous financial year to approximately 6.51 per cent. for the year under review. The increase in the margin

was principally due to the commencement of production of the Group's production facilities in Zhuhai which has improved the Group's production facility substantially. As a result the Group was able to accept additional orders from the existing and new customers for assembling remote control units and office appliances which generate a much higher profit margin compared to home audio equipments.

Mould design and fabrication business

Turnover generated from the mould design and fabrication business amounted to approximately HK\$35.27 million and this accounted for approximately 3.78 per cent. of the turnover of the Group during the year ended 31 July, 2002. The Directors are of the view that this business will continue to form as part of the supplementary business of the Group and also believe that this will improve the competitiveness of the Group in providing integrated manufacturing solutions to its customers.

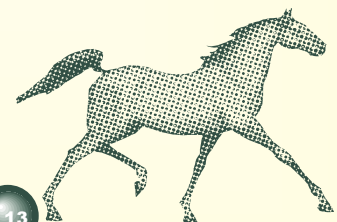
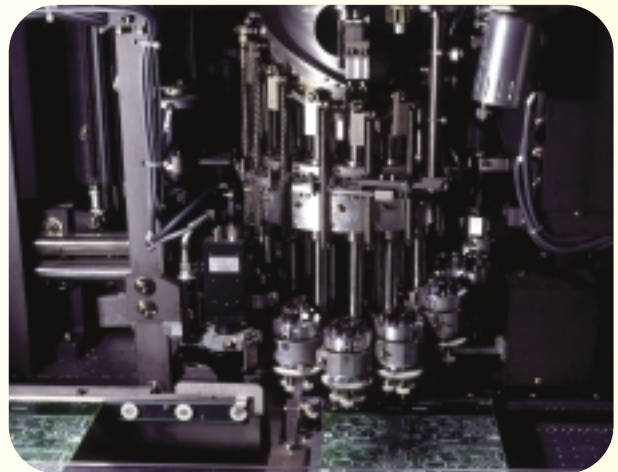
Management Discussion and Analysis of Results of Operations

Distribution costs and administrative expenses

For the year ended 31 July, 2002, the total distribution costs and administrative expenses of the Group recorded an amount of approximately HK\$67.77 million (2001: approximately HK\$55.02 million). The increase in these expenses was attributed by the increase in sales and commencement of business operations of the Group's production facilities in Zhuhai and Qingdao. These expenses as a percentage of turnover showed an improvement by approximately 1.34 per cent., from approximately 8.61 per cent. in the previous financial year to approximately 7.27 per cent.. This was mainly contributed by the cost saving resulting from the shift in the exporting port from Hong Kong to other regions in the PRC and stringent cost control measures implemented by the management during the year review.

Net finance costs

The net finance costs of the Group for the year ended 31 July, 2002 amounted to approximately HK\$12.99 million (2001: approximately HK\$11.63 million), representing an increase of approximately 11.69 per cent. as compared to previous financial year. The increase was principally attributable to the increased use of banking facilities for the commencement of business operations of the Group's production facilities in Zhuhai and Qingdao. This represents approximately 1.39 per cent. of the turnover of the Group for the year ended 31 July, 2002 and is comparable with the same for the year ended 31 July, 2001.



Management Discussion and Analysis of Results of Operations

Future prospects

The Group has been able to diversify its business, products and customer bases for the year under review. With new production capacities being created through the investment of new manufacturing equipment in the production facilities of Zhuhai and Qingdao, the Group is in a very strong position to springboard to a better performance in the next financial year.

Looking ahead, the Group will further enhance its production capacity by completing its development of the production facilities in Zhuhai. At present, 61,292 square metres of the land has been fully developed, which represent only 34.92 per cent. of the land owned by the Group. The Directors aimed to complete the construction of these production facilities by 2005 and estimated that the completion of this project will increase the Group's production capacity by one-fold.

The Group plans to strengthen its strategic link and supply chain management for the forth-coming year so that the Group will be more responsive to the short lead time demand from existing and new customers. In addition, the Group will adopt an information system approach to enable it to be more responsive to the market's needs.

The Directors foresee potential fluctuation in the international crude oil price due to the unstable political environment in the Middle East. However, the Group has prepared measures to mitigate the impact of the price fluctuation.



The Group will continue to explore new business segments and focus will be emphasised on expanding the Group's marketing department. The Directors also realise that great potential exists for the PRC market, especially after the entry of the PRC to the WTO. According to the PRC National Bureau of Statistics, the total spending of the PRC citizens on telecommunication, household products and electrical appliances for the first half of the year 2002 have increased by 63.00 per cent. as compared to the same period in 2001. This will increase the Group's opportunity to gain more market share in such promising market.

Liquidity and financial resources

As at 31 July, 2002, the Group had cash and bank balances of approximately HK\$194.62 million (2001: approximately HK\$193.39 million) of which approximately HK\$83.71 million (2001: approximately HK\$84.81 million) were pledged to the banks for banking facilities granted to the Group. The liquid funds were denominated in US dollars, Hong Kong

Management Discussion and Analysis of Results of Operations

dollars and Renminbi which represent approximately 77.37 per cent., approximately 16.59 per cent. and approximately 6.04 per cent., respectively, of the Group's total cash and bank balances.

The Group generally finances its operations through a combination of shareholders equity, internally generated cash flows and borrowings from banks in Hong Kong and other regions in the PRC. As at 31 July, 2002, the Group had unutilised banking facilities of approximately HK\$120.88 million.

As at 31 July, 2002, the Group's total borrowings amounted to approximately HK\$351.23 million, representing an increase of approximately HK\$109.05 million from approximately HK\$242.18 million as at 31 July, 2001. The increase in borrowings was due to construction of phase II and phase III of the factory buildings in Zhuhai and new capital expenditure in subsidiaries of the Company in Qingdao, namely HAIVS Qingdao and VS Haier. Included in these borrowings is shareholder's loan of approximately HK\$48.92 million. As disclosed in the Prospectus, such amount of shareholder's loan is repayable in

20 consecutive half-yearly installments on 1 February and 1 August starting from 1 August, 2002 as stipulated in an agreement dated 20 January, 2002. The remaining balance of borrowings was mainly for business expansion, capital expenditure and working capital purposes. Interest rates of these borrowings ranged from 2.91 per cent. per annum to 8.00 per cent per annum and maturity period spread over a period of ten years with approximately HK\$223.69 million repayable within one year and approximately HK\$127.54 million after one year but within ten years. The

amounts of borrowings denominated in US dollars, Renminbi and Hong Kong dollars were equivalent to approximately HK\$181.76 million, approximately HK\$130.68 million and approximately HK\$38.79 million respectively.

The Group's gearing ratio, represented by the interest bearing borrowings over the Group's total asset as at 31 July, 2002, was approximately 35.27 per cent. (2001: approximately 39.42 per cent.). The decrease in the gearing ratio reflected the commitment of the management to reduce the debt level to a much more healthy position.

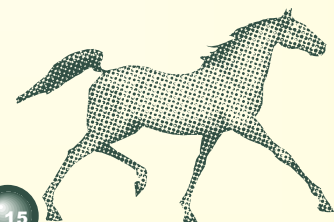
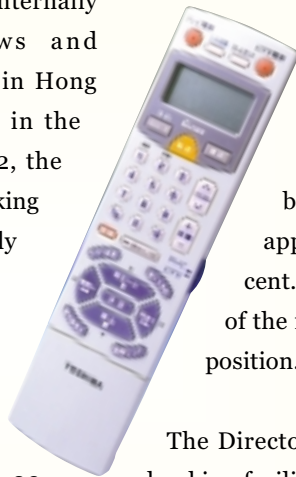
The Directors believe that with its internally generated funds, current banking facilities and the net proceeds from the share offer as provided in the Prospectus, the Group has sufficient financial resources to satisfy its current commitments and working capital requirements.

Charges on assets

Assets charged as security for banking facilities included plant and machinery with carrying value of approximately HK\$88.10 million (2001: Nil), buildings with carrying value of approximately HK\$7.18 million (2001: Nil) and motor vehicles with carrying value of approximately HK\$3.78 million (2001: approximately HK\$1.72 million), in addition to the pledged bank deposits of approximately HK\$83.71 million (2001: approximately HK\$84.81 million).

Contingent liability

The Group did not have any significant contingent liability as at 31 July, 2002 and 2001.





Management Discussion and Analysis of Results of Operations

Foreign exchange risk

As the Group's operations are principally in the PRC and all assets and liabilities are denominated either in Renminbi, Hong Kong dollars or US dollars, the Directors believe that the operations of the Group are not subject to significant foreign exchange risk.

Net proceeds from the Company's initial public offering

The net proceeds from the issue of new shares at the time of the Company's initial public offering in February 2002, after deduction of related issuance expenses, amounted to approximately HK\$73.76 million.

As at 31 July, 2002, the net proceeds have been fully utilised in the following manner:–

- approximately HK\$13.99 million for capital contribution to a subsidiary of the Company;
- approximately HK\$20.64 million for acquisition of plant and machinery;
- approximately HK\$3.36 million for construction of production complex;
- approximately HK\$12.00 million for repayment of certain bank loans of the Group; and
- approximately HK\$23.77 million for general working capital of the Group.

The above use of proceeds was in line with the disclosure set forth in the Prospectus.

Employees and remuneration policy

As at 31 July, 2002, the Group had a total of 5,565 (2001: 3,706) employees of which 2,772 (2001: 2,666) were employed under processing arrangements as described in the Prospectus. During the year ended 31 July, 2002, there was no significant change in the Group's remuneration policies for the employees.

Employees' costs (excluding Directors' emoluments but including wages paid to employees employed under the processing arrangements as described in the Prospectus) for the year ended 31 July, 2002 amounted to approximately HK\$57.74 million (2001: approximately HK\$47.82 million). Remuneration packages are maintained at competitive level and the Group's employees are rewarded on a performance related basis.

The Company conditionally adopted a share options scheme on 20 January, 2002 for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operation. The Board, may at their absolute discretion, grant options to employees and Directors and directors of the Company's subsidiaries and any qualified persons as set forth on the scheme, to subscribe for shares in the Company. The subscription price, exercisable period and the maximum number of options to be granted are determined in accordance with the prescribed terms of the Scheme. During the year ended 31 July, 2002, no share options had been granted under the Scheme.

The Group has also adopted a provident fund scheme for its employees in Hong Kong as required under the Mandatory Provident Fund Schemes Ordinance.