

MANAGEMENT DISCUSSION AND ANALYSIS

Analysis of Results

As at 30 June 2002, the total turnover of the Group amounted to approximately HK\$122,560,000, representing a decrease of approximately 28.49% over the same period last year, whilst gross profit margin was maintained at approximately 19.76%. The consolidated loss after tax amounted to approximately HK\$9,763,000, representing a 14.31% increase over the previous year. The loss per share amounted to approximately HK\$6.5 cents.

The Group was still suffering from the sluggish economic condition of most parts of the world. Geographically, sales to the United States of America (the "US"), which has always been the largest overseas market of the Group, was affected by the slow pace of economic recovery in the region. Turnover to the US dropped by approximately 19.90% to approximately HK\$49,746,000. As uncertainties still lie ahead in the US economy, sales to the US will not rebound in the near future. The economy in Asia and Hong Kong did not have significant improvement. Turnover to these regions plunged by approximately 35.90% and 33.20% respectively. On the other hand, turnover to elsewhere in the PRC edged down by approximately 46.62% during the year under review.

In face of these severe external market conditions, the management of the Company has put much effort on tightening controls on the reduction of operating costs, aiming to enhance operational efficiency and competitiveness. With these cost control policies, the overall administrative expenses and other operating expenses decreased by approximately 15.41% and 53.87% respectively comparing to last year. Management will continue to adopt a strict internal cost control policy in order to keep expenses to the minimum while maintaining work efficiency and product quality.

Product Development

Also, the Group will continue to put emphasis on developing products with reasonable price and good quality, as management believe that such products can best suit the purchasing power of the global population during these recessionary times. Our own research and development team will continue to work on design, component development, sample making and upgrading, and production engineering in order to accelerate production, improve production efficiency and product quality, and diversify product designs.

Liquidity and financial resources

As at 30 June 2002, net current assets and current ratio of the Group were approximately HK\$8,773,000 (2001: HK\$14,886,000) and 1.20 (2001:1.34) respectively. The current assets comprised inventories of approximately HK\$12,879,000 (2001: HK\$17,317,000), trade and bills receivables of approximately HK\$27,232,000 (2001: HK\$28,898,000) and cash and cash equivalents of approximately HK\$938,000 (2001: HK\$6,285,000).

As at 30 June 2002, the Group has total outstanding debt and finance lease obligations of approximately HK\$15,110,000 (2001: HK\$11,587,000), of which approximately HK\$6,487,000 (2001: HK\$8,355,000) was secured bank loans, approximately HK\$7,306,000 (2001: HK\$2,892,000) was secured bank overdrafts, and approximately HK\$1,317,000 (2001: HK\$340,000) was obligations under finance leases. Our gearing ratio was at a healthy ratio of 4.56% (2001: 4.62%). The computation is based on long-term borrowings of the Group divided by shareholders' fund as at 30 June 2002.

Capital Structure

During the year ended 30 June 2002, there was no change in the Company's share capital. The Group generally finances its operations with internally generated cash flows, short-term loans and overdraft facilities provided by banks in Hong Kong. Cash generated from the Group's operating activities amounted to approximately HK\$5,493,000 (2001: HK\$4,415,000). As of 30 June 2002, the total outstanding short-term borrowings stood at approximately HK\$12,488,000 (2001: HK\$8,506,000). Borrowing methods used by the Group mainly include trust receipt loans, overdrafts facilities and bank loans. The interest rates of most of these are fixed by reference to the Hong Kong Dollar Prime Rate for foreign currency's Trade Finance Rates. The Directors believe that the Group has sufficient financial resources to discharge its debts and to finance its operations and capital expenditures.

Management Discussion and Analysis

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Dissolution of a subsidiary

As mentioned in our 2001 annual report, the Group has been transferring its production facilities from the factory in Dongguan in Guangdong Province (the "Dongguan Factory") to the new factory in Longnan County in Jiangxi Province (the "Jiangxi Factory") which is operated by Longnan County Poly Action Plastic & Metal Products Co., Limited, a wholly-owned subsidiary of the Group. During the year under review, the relocation of the machinery was completed. Poly Action Plastics & Metal Manufacture Limited, which was responsible for holding the Dongguan Factory, is now in the progress of dissolution.

Capital expenditure

Capital expenditures amounted to approximately HK\$9,931,000 (2001: HK\$17,398,000) for the set up of the Jiangxi Factory for the year ended 30 June 2002, of which approximately HK\$1,120,000 for additional leasehold land and buildings, approximately HK\$1,822,000 for additional plant and machinery, approximately HK\$206,000 for leasehold improvements and others and approximately HK\$6,783,000 for construction in progress.

Charges on Group's Assets

At 30 June 2002, the Group pledged its investment properties and certain leasehold land and building with aggregate net book values of approximately HK\$10,912,000 (2001: HK\$10,830,000) and HK\$5,294,000 (2001: HK\$5,306,000) respectively as securities for banking facilities granted to the Group.

Contingent Liabilities

At 30 June 2002, the Group had contingent liabilities not provided for in the financial statements in respect of bills discounted with recourse amounting to approximately HK\$4,000,000 (2001: HK\$6,900,000).

At 30 June 2002, the Company had contingent liabilities not provided for in the financial statements in respect of unlimited corporate guarantees given to the banks for general banking facilities granted to a subsidiary amounting to HK\$55,336,000 (2001: HK\$55,336,000). On the same day, such facilities were utilized to the extent of approximately HK\$17,800,000 (2001: HK\$18,200,000).

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Investment in properties

The Group's investment properties are situated in Hong Kong and held under long term leases. The investment properties were revalued on 30 June 2002 by LCH (Asia-Pacific) Surveyors Limited, independent professionally qualified valuers, at HK\$10,912,000 on an open market value, existing use basis.

The Group's leasehold land and buildings are situated in Hong Kong and the PRC. Except for certain leasehold land and buildings of approximately HK\$10,966,000 (2001: HK\$1,456,000) which are held under medium term leases, the remaining leasehold land and buildings of HK\$4,232,000 (2001: HK\$3,850,000) are held under long term leases.

The Group's leasehold land and buildings, except those situated in the PRC, were revalued individually at the balance sheet date by LCH (Asia-Pacific) Surveyors Limited, independent professionally qualified valuers, at an aggregate open market value of HK\$5,294,000 (2001: HK\$5,306,000) based on their existing use. A revaluation surplus of HK\$94,000 (2001: surplus of HK\$406,000) resulting from the above valuations has been credited to the profit and loss account.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)**Investment in properties** (continued)

The net book value of machinery and a motor vehicle held under finance leases as at 30 June 2002 amounted to approximately HK\$1,692,000 (2001: Nil) and HK\$311,000 (2001: HK\$436,000) respectively.

Segment Information

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments.

Group	United States of America		Hong Kong		Elsewhere in the PRC		Asia		Others		Eliminations		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:														
Sales to external customers	49,746	62,108	18,725	28,033	11,351	21,264	23,342	36,413	19,396	23,582	-	-	122,560	171,400
Other revenue	-	-	1,388	3,410	2,530	2,305	-	-	1,301	1,469	-	-	5,219	7,184
Total revenue	49,746	62,108	20,113	31,443	13,881	23,569	23,342	36,413	20,697	25,051	-	-	127,779	178,584
Other segment information:														
Segment assets	-	-	64,872	67,919	39,051	45,419	82	-	-	-	-	-	104,005	113,338
Capital expenditure	-	-	60	946	9,871	16,452	-	-	-	-	-	-	9,931	17,398

Employees and remuneration policies

As at 30 June 2002, the Group had about 1,912 (2001: 2,720) employees spreading from Hong Kong to the PRC. Industrial relationship had been well maintained.

Foreign exchange exposure

The Group mainly earns revenue and incurs costs in US dollars and Hong Kong dollars. Foreign exchange exposure of the Group is mainly minimal so long as the Hong Kong SAR Government's policy to link the Hong Kong dollars to the US dollars remains in effect.

Since the Group's principal manufacturing operations are in the PRC and most of the operating expenses are denominated in Renminbi, the management is aware of possible exchange rate exposure.