

OVERVIEW

For the year ended 31 March 2002, the Group recorded turnover of HK\$156,162,000, representing an increase of 7% as compared to that of the previous year. The growth in turnover resulted from an increase in shipments of the Group's products. The increase was principally attributable to sales of melamine products, sales of which was increased by 12% to HK\$123,480,000 (2001: HK\$110,444,000). Sales of silicon rubber products amounted to HK\$32,682,000 (2001: HK\$35,515,000), representing a decrease of 8% over that of the previous year.

Although the Group was able to experience an increment in turnover, its profit margin was reduced due to the change in sales mix. The global economic slowdown affected many companies and industries on a worldwide basis, including our valuable customers. Hence, both the demand and orders of the high-end products, which possess higher profit margins, were inevitably affected adversely. As compared with the first half of the financial year, results in the second half were less satisfactory. This was mainly due to the "9-11" incident, which further impeded the economy. In the second half of the financial year, the demand and orders from the US and Europe markets for the Group's high-end products dropped considerably. Although the Group recorded a decline of sales of its high-end products, the demand for its lower-end products fortunately witnessed an increase and helped to offset the negative impact of the global economic slowdown to a certain extent.

In terms of geographical segments, Hong Kong, South East Asia and South America continued to be the major markets for the Group's products. Sales to these markets contributed to over 96% of the Group's turnover. Sales to Hong Kong were approximately HK\$47 million (2001: HK\$58 million), sales to South East Asia were approximately HK\$56 million (2001: HK\$24 million), and sales to South America were approximately HK\$47 million (2001: HK\$51 million). Customers consist of industry leaders and giants, including international tobacco companies, fast food corporations, soft drink manufacturers, or anyone who demands top quality and meticulously designed premium gifts, household products and decorative items.

Production Facilities

Headquarters in Hong Kong, the Group has its production facilities in Dongguan, the People's Republic of China (the "PRC"), with a total gross floor area of approximately 10,078 sq.m. It is equipped with 68 automatic oil hydraulic machines for the production of melamine products and 20 machines for silicon rubber products. During the year under review, the Group has consistently achieved a utilisation rate of 98% and 55% respectively.

Quality Control

The Group's quality assurance team based in the PRC is responsible for implementing a stringent quality control on a daily basis to ensure quality consistency and timely delivery. Coupled with proactive communications with customers on product designs and development, the Group has continuously enjoyed amicable relationships with its customers.

To reinforce its leadership role in melamine and silicon rubber products, the Company has always paid much attention to research and development to keep it abreast of market trends and the latest technologies. During various stages of production, the Group conducts random quality tests on materials and accessories and applies appropriate technologies to produce innovative products that are in line with the changing customer demand, increasing production efficiency and rapid technological advancements.

OVERVIEW *(Continued)*

Investment

During the year, the Group paid a refundable deposit of HK\$10 million for a potential equity investment in an unlisted company.

By investing in the equity interest in this company, the Group expects to diversify its business opportunities as well as improve the prospects of its future earnings.

Liquidity and Financial Resources

The Company was listed on 12 April 2001. The share offer which comprised a new issue of 72 million shares and raised net proceeds of approximately HK\$25.5 million for the Group.

As at 31 March 2002, the Group enjoyed a strong liquidity position, with unpledged cash on hand and bank balances that totaled HK\$5 million and net current assets of HK\$39.9 million. The comparative figures as at 31 March 2001 were HK\$5 million and HK\$13 million respectively. Most of the funds were held in Hong Kong dollars. As at 31 March 2002, the Group's total interest-bearing bank borrowings amounted to approximately HK\$47.6 million, among which approximately 83% is repayable within one year. The gearing ratio of the Group as at 31 March 2002, calculated as a ratio of interest-bearing borrowings to total assets, was approximately 28%. Needless to say, the Group enjoyed a sound financial position and it will undoubtedly benefit its future business developments.

As at 31 March 2002, the bank facilities of the Group were secured by (i) first legal charges on all of the Group's leasehold land and buildings and investment property with carrying values of approximately HK\$5,200,000 and HK\$1,170,000 respectively; and (ii) the pledge of the Group's time deposits amounting to HK\$34,628,000 (2001: Nil).

Pursuant to a directors' resolution passed on 16 May 2002, the Company raised approximately HK\$32 million, before share issue expenses, by way of a rights issue of 2,000,000,000 rights shares of HK\$0.001 each of the Company at a subscription price of HK\$0.016 per rights share, on the basis of one rights share for every two existing shares held by shareholders whose names appeared on the register on 21 May 2002. The net proceeds of the rights issue will be used for the working capital of the Group.

On 26 June 2002, the Company, Taiwan Concord Securities (Hong Kong) Limited and Great-China Brokerage Limited, independent third parties, entered into an agreement for the placing of a total of 480,000,000 shares of HK\$0.001 each of the Company at an issue price of HK\$0.011 per share. The subscription was completed on 12 July 2002 and the net proceeds of approximately HK\$4.9 million will be used for the working capital of the Group.

Future Prospects

In November 2001, the Group successfully penetrated the PRC market. The Group established amicable cooperation with six retail shops, five in Guangdong province and one in Zhejiang province, to distribute its melamine and silicon rubber products in the PRC. Eyeing the tremendous potentials of the highly populated PRC market, the Group is very optimistic of its future development in the PRC market and will dedicate to expand its network in the PRC, especially in major cities such as Shanghai and Shandong.

OVERVIEW *(Continued)*

Future Prospects *(Continued)*

Looking ahead, the Group targets to expand its PRC sales network and distribute its products in a total of 20 retail stores, while also seeking for potential partnerships to further enhance its presence, promote its brand name recognition as well as expand its production capacity. The Company will ensure that its utilisation rate will maintain over 90% at all times as an effort to satisfy the increasing demand, especially after the PRC's accession into WTO.

With the Group's familiarity of market needs and customer tastes, coupled with limited competition in the manufacture of melamine and silicon rubber products, the Group will capitalise on its unrivaled expertise and experience to reinforce its leadership role in the industry and to secure its unique positioning and recognition in the PRC market. Upon the recovery of the US economy and the global operating environment, the Group will be ready to demonstrate what its sturdy business foundation is capable of.

Contingent Liabilities

As at 31 March 2002, the Company had contingent liabilities in relation to corporate guarantees given by the Company to banks for facilities granted to subsidiaries of the Company amounting to HK\$69.7 million.

Foreign Exchange and Currency Risks

Since most of the revenue generated from the sale of products and the payment for purchases of materials, components, equipment and salaries are either made in HK dollars, Renminbi, or Hong Kong dollars pegged currencies, no use of financial instruments for hedging purposes is considered necessary.

Employees and Remuneration Policy

As at 31 March 2002, the Group had 13 staff working in Hong Kong. In addition, 596 workers are employed pursuant to the Group's processing arrangement with an independent third party.

The Group remunerates its employees based on their performance and the prevailing industry practice. The remuneration policy and package are reviewed by the Board on a periodical basis. Bonus and commissions may be awarded to employees based on performance evaluation. There are drives and encouragements for personal performance.

Use of Proceeds of the Public Offer

The net proceeds from the Company's issue of new shares at the time of its listing on The Stock Exchange of Hong Kong Limited on 12 April 2001, after deduction of related expenses, amounted to approximately HK\$25.5 million. These proceeds were fully applied during the current financial year in accordance with the proposed applications set out in the Company's listing prospectus. Approximately HK\$17 million was used for the procurement of production machinery, equipment and moulds; and the balance of HK\$8.5 million was applied as additional working capital of the Group.