MANAGEMENT DISCUSSION AND ANALYSIS

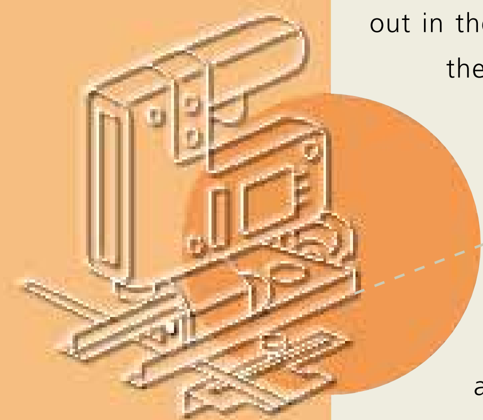
WANG Shu, *Managing Director*

FINANCIAL REVIEW

For the year ended 31 December 2002, the Group recorded a turnover of HK$343,642,000, representing an increase of 18.3% as compared to HK$290,382,000 in the previous year. Profit attributable to shareholders was HK$30,253,000, representing a decrease of 17.6% from HK$36,721,000 in 2001. Earnings per share were HK9.8 cents. The increase in turnover was mainly attributable to the sincere efforts made to secure new customers in building a solid customer base with high growth potential. However, to enhance production capabilities, the Group established a new and well-equipped electric power tools production base with advanced facilities in Hai An County, Jiangsu Province last year. This investment, together with the active participation in various local and overseas trade shows and the recruitment of additional industry specialists, led to an increase in selling and administration expenses in the year under review.

The Group maintained a sound financial position. As at 31 December 2002, the Group's cash on hand amounted to HK$21,008,000 of which HK$288,000 was pledged to banks for banking facilities granted to the Group, the gearing ratio remained at zero (the Group has no outstanding debt financing as at 31 December 2002) while the current ratio was 1.2 times. With this solid financial position, the Group is ideally positioned to further expand its electric power tools manufacturing business in the future.

The Group has used the net proceeds of HK$66,000,000, raised during its listing in the year, in accordance with the section "Future Plans" as set out in the Prospectus: HK$42,000,000 was used for the construction of the new production plant in Hai An County, Jiangsu Province and purchase of laboratory and production equipment; HK$7,000,000 for the expansion of distribution network and as a deposit for the acquisition of an electric power tools distributor in Germany; HK$8,000,000 for the product design and development; HK$3,000,000 for marketing and promotional activities including participation in the Chicago Hardware Show and the Guangzhou Trade Fair, etc; and the remaining as general working capital.



DIVIDEND

The Directors have recommended a final dividend of HK1 cent per share for the year ended 31 December 2002, subject to the approval of shareholders at the forthcoming annual general meeting of the Group. Together with the interim dividend of HK2 cents, total dividend for the year under review amounts to HK3 cents.

BUSINESS REVIEW

With the help of a dynamic supply system and increased reliance on its own production, the Group has successfully maintained its low cost competitive edge in addition to enhancing its production capacity. A brand new 2,000,000 square feet factory was established in Hai An County, Jiangsu Province during the year. Equipped with state-of-the-art facilities, the new factory has a metal processing center, DC and AC power tools production lines and assembly lines, an injection center, precision production line, etc. Production flexibilities at the new plant are further boosted by the introduction of the circular production line which is commonly adopted by pioneering industries overseas. The new factory has commenced full operations and is now producing products according to customers' demand. In addition, the Group also introduced a new AXIS production line from Italy, which substantially enhanced the quality of its self-manufactured electric power tools. The Group is one of the few manufacturers in the PRC to adopt such advanced machinery, enabling it to further improve the quality of its products and develop the market of premium electric power tools.

BUSINESS REVIEW (continued)

The new factory commenced operations in November 2002, increasing the Group's production capacity to 3,000,000 product sets. The Group has also commenced the construction of various facilities including a laboratory, an office tower, a third phase warehouse, etc. The entire project is expected to be completed by the end of 2003. Capitalising on its enhanced production capabilities and advanced production facilities, the Group had greatly increased the proportion of its own manufacturing during the review year, reaching 54.2% of the Group's total turnover, which represents a significant increase of 20% as compared to the last year's share.

The European market remained as the Group's major business focus. To further expand this huge market, the Group entered into a cooperative agreement with Barth Und Schoenemann GdbR ("B&S") on 23 August 2002, at a consideration of HK$11,400,000 to acquire 50% interest in SBW Technische Gerate GmbH ("SBW"), a wholly owned subsidiary of B&S that distributes power tools in Germany. SBW distributes its products primarily to European countries such as Germany, Austria, Spain and Italy. Under the agreement, B&S will transfer its business in association with TIP, one of the most well-known power tool brands in the German market, to SBW within a period of two years. This agreement not only enables the Group to gain the distribution rights for the renowned TIP brand, but also to tap into the existing distribution network of SBW and TIP in the European power tools market. The huge distribution network in Europe and the strong brand recognition for SBW and TIP will help the Group to further

BUSINESS REVIEW (continued)

expand its presence in the European market. With the acquisition procedures taking longer time than expected, this acquisition agreement took effect on 1 January 2003 with a slight delay in the expected schedule. However, the business is running smoothly at present. Additionally, the Group has benefited from the strong performance of the Euro dollar in the currency exchange markets which has stimulated the purchasing power among European customers. During the year, the Group has successfully expanded into the Eastern European markets, including Poland, Slovenia, among others.

To accelerate its business development, the Group adopted multi-market strategies and successfully explored new markets such as Japan, US, New Zealand, Australia, South America and India during the year. This provides a strong driving force for the Group's future growth. At the same time, the Group has developed different export distribution channels, extending its business to PRC exporters. In the review year, Europe was still the Group's major market, contributing 71.8% of its total turnover, while Asia brought in 27.5%, while North America and other continents accounted for the remaining 0.7%. As compared to the market distribution in the previous year, the Asian market has grown exceptionally well. To further broaden its distribution network and to sharpen its existing competitive edges, product prices to PRC exporters were lowered as compared with that of overseas customers, leading to a drop in the gross profit margin from the previous year's 18.2% to 16.1% this year. With relentless effort, the Group has been extending its customer base to cover renowned overseas chain stores, large-scale European electric power tools distributors such as Leroy Merlin and TIP, as well as PRC exporters.

On 4 April 2003, Jiangsu Golden Harbour Enterprises Ltd. ("Golden Harbour"), a subsidiary of the Group terminated its subcontracting agreements with Hai An Xian Electronic Meter Factory ("Hai An") and Tian Yuan. According to the subcontracting agreements, Golden Harbour would have total control of the operations of both Hai An and Tian Yuan.

BUSINESS REVIEW (continued)

The two factories, however, breached the agreements by failing to pass their entire operations and release inventories of Golden Harbour held by them. The Group has referred the matter to the People's Government of Hai An County and Nan Tong City, aiming to resolve the matter satisfactorily through the assistance of the municipal authorities. Given that the Group has two well-equipped production bases of its own and an established network of close to 50 suppliers in the PRC, the production capabilities of the Group have not been affected by this issue. The Group is competent to meet its orders on hand and make timely delivery of the finished products to customers. Taking the possible impact of the withheld inventories on the Group's financial situation into consideration, the auditors have expressed a qualified opinion on the Group's annual results. However, the Group believes the matter will not pose any substantial impact on its daily operations.

PROSPECTS

Looking ahead, the Group will further expand its business, building on the competitive strengths it established in 2002. Capitalising on the active expansion of advanced production facilities during the year, the Group is prepared to further improve the proportion of its own manufacturing activities, accelerating the development of the Group. The Group aims to readjust the proportion between its own manufacturing and subcontracting to 80:20 in 3 to 5 years, to increase the quality of its products while lowering the cost of production and to raise the gross profit as well as its overall profitability effectively. The Group is also enhancing its "one-stop" production model, embracing product design and development, international standards compliance, manufacturing, and quality assurance, to export and to provide other supporting services in the management of supply chain. This provides customers with top quality products and comprehensive services, enabling the Group to achieve its ultimate goal to become the world's leading electric power tools manufacturer.

PROSPECTS (continued)

The Group continues to improve its research and development capabilities. In 2002, the Group's Research and Development Department developed a series of 16 new types of electric power tools which had been well received by the Group's customers. The Group has successfully received a number of bulk orders from its customers which will be delivered in the next few months. Building on the foundations laid with this experience, the Group will launch more new products and further tighten quality control to ensure its products comply fully with international standards. The Group will continue to make capital investments, boosting its strengths in research and development. At the same time, the Group has also been recruiting specialists from around the world with extensive industry and technical experience, who are familiar with the operational environment both within and outside the PRC and can assist the Group in realising its development potential. With this expertise, the Group will be able to internationalise its management. The Group will also implement a phased enterprise resource planning system ("ERP") to strengthen its corporate resources management and to manage its supply chain efficiently.

As for the product categories, the Group has been concentrating on diversifying its product scope. Apart from producing DC and AC power tools, the Group has also pioneered the development of air tools and manual power tools. The market potential for air tools is enormous as the products generate higher market values as high technology is required. According to market statistics, the American market for air tools recorded annual growth rates of 12% to 15% in the previous three to five years. The Group has been studying the potential for air tools development since 2002. As a result, the Group has successfully developed air tool products, introducing relevant production facilities and streamlining production lines for the manufacture of air power tool products at the end of 2002. Capitalising on this established experience in product development and technological foundations, the Group is planning to bring in overseas design and manufacturing techniques for its air tool products via technology

PROSPECTS (continued)

transfers. The Group expects to launch air tools under its own brand name in 2003, aiming to become a leading manufacturer in pioneering the development of air tools within the industry. The technology requirement for this kind of product is high with comprehensive production skill, thus the profit margin is comparatively high. The Group has already received number of orders for air tool products and the initial batch for the 2 sets of air tool products is expected to be delivered in May 2003. The Group expects to increase its self-manufactured air tool products to 12 categories in June, these products will meet the needs of customers located in regions such as Japan, Europe and Australia. At the same time, the Group is negotiating with many renowned clients in Canada, US and Japan, who are operating at their respective stages of growth. This move has not only developed new markets and new clients for the Group, it has also created a tremendous driving force for the Group's business growth in 2003.

The unlimited business opportunities within the electric power tools industry will lead to prosperous growth for the Group with its many new development opportunities and challenges. Riding on the solid foundations established by its own strong production capabilities, its outstanding research and development abilities as well as its extensive customer network, the Group will continue to focus on the European market while further consolidating newly developed markets in 2002 including New Zealand and Japan. The Group will also allocate more resources in exploring new clients as well as new markets in regions such as North America and Australia, which may further expand the Group's revenue bases. The Group expects to grow rapidly to become a leading export-oriented electric power tools distributor and manufacturer in the PRC within the next two years, to command a major position in the international power tools market and more importantly, bring in attractive profit contributions to the shareholders.