

FINANCIAL REVIEW

Although the world's economy was overshadowed by uncertainties and most of the businesses experienced revenue decline, the Group successfully maintained its business position in the electronics industry. In view of the profit contributions for the year under review together with the placement of new shares during the year, the Group's total net assets increased by HK\$89.5 million. With the acquisition of Swank Group in March 2002, the Group's total turnover recorded at HK\$741.1 million, representing 36.2% increase compared with the same period last year. Net profit attributable to shareholders amounted to HK\$62.8 million. Basic earnings per share for the year was HK2.23 cents. Details of the variances are summarised as follows:

	Increase/ (Decrease) in the Group's total net assets
	HK\$ million
Fixed assets	63.1
Negative goodwill	(58.7)
Interests in associates	30.9
Prepaid rental	(0.7)
Rental deposits	0.5
Deferred product development costs	(0.3)
Cash and bank balances, time deposits and pledged deposits	(51.4)
Accounts receivable, bills receivable, prepayments, deposits and other receivables	0.7
Loans receivable and interest receivables on loans	108.9
Short term investments	(0.6)
Properties held for sale	(2.2)
Inventories	45.4
Accounts payable, accrued liabilities and other payables	(36.7)
Tax (including tax payable and deferred tax)	(3.3)
Due to associates	(8.8)
Provision for long service payments	(1.5)
Minority interests	4.2
Net increase in Group's total net assets	89.5

As at 31 December 2002, the Group's properties in both Hong Kong and the Mainland China were revaluated by professional valuers in accordance with the open market values. A revaluation surplus of HK\$22,000 and revaluation deficit of HK\$31,000 resulting from these valuations have been credited to profit and loss account and charged to the property revaluation reserve, respectively.

FINANCIAL REVIEW (continued)

During the year under review, there were additions of fixed asset amounting to HK\$21.4 million and assets acquired under the acquisition of Swank amounted to HK\$75.6 million

Negative goodwill was derived from the acquisition of Swank and an additional 10% investment in a previously 55% owned subsidiary company of the Group, Electronics Tomorrow Manufactory Inc. by the subscription for 57 new shares of that subsidiary in May 2002.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's cash and bank balances (including time deposits and pledged deposits) decreased to HK\$322.4 million as at 31 December 2002 (2001: HK\$373.8 million). The Group has available banking facilities of HK\$178 million. It is believed that the Group has adequate cash resources to meet the normal working capital requirements and all commitments for future development. The gearing of the Group, measured as total debts to total assets, was 20.0% compared with 17.3% as at 31 December 2001.

The Group has minimal currency exposure as most of its sales are denominated in United States dollars and Hong Kong dollars. On the other hand, its disbursements are mainly in United States dollars, Hong Kong dollars and Renminbi which are not expected to have significant fluctuation.

CAPITAL STRUCTURE

Pursuant to a placing agreement dated 11 March 2002, Winspark Venture Limited ("Winspark"), the major shareholder of the Company, placed 178 million shares through Kingston Securities Limited to independent investors at a price of HK\$0.15 per share. Moreover, pursuant to a top-up subscription agreement between the Company and Winspark on the same date, Winspark subscribed for 178 million new shares of the Company at a price of HK\$0.15 per share. The net proceeds of approximately HK\$26 million from the share placement were used for general working capital of the Group.

Moreover, the Company's issued share capital will be increased by 91.5 million shares should the options granted to three directors in 2000 be fully exercised.

The Company proposed a capital reorganisation including a share capital reduction, a share subdivision and a share consolidation.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2002, the total headcount of the Group was approximately 4,600, more than 4,400 in the PRC and about 160 in Hong Kong.

The Group offers a competitive remuneration package to its employees. In the PRC, the Group provides staff welfare and bonuses to its employees in accordance with the prevailing labour law. In Hong Kong, apart from basic salary, staff benefits include medical insurance, performance related bonuses and mandatory provident fund, would be provided by the Group.