

# Management Discussion and Analysis

## FINANCIAL REVIEW

For the year ended 31 March 2003, the Group recorded a turnover of HK\$313.8 million representing an increase of approximately 17.2% compared with HK\$267.8 million in the previous year. Operating profit for the year was HK\$27.0 million representing a turnaround from an operating loss of HK\$65.8 million in 2002. Net profit from ordinary activities attributable to shareholders was HK\$10.6 million, compared with a net loss from ordinary activities attributable to shareholders of HK\$96.2 million for the same period last year. The Group's basic earnings per share were HK0.48 cent (2002: basic loss per share of HK6.7 cents).

## DEBT RESTRUCTURING

During the year, the Group has completed the Debt Rescheduling and Restructuring Deed (the "DRD") with its Hong Kong bank creditors (the "Participating Banks") under the DRD.

Pursuant to the debt restructuring plan, the Group's total indebtedness of approximately HK\$194 million owed to the Participating Banks was restructured and was, or is scheduled to be, discharged as follows:

- (a) A restructuring into a short term bank loan of HK\$4.5 million face value, which is secured by the Group's 25% interest in a jointly-controlled entity;
- (b) A cash repayment of approximately HK\$45 million to the Participating Banks;
- (c) A write off by the Participating Banks of HK\$18 million owed to them;
- (d) A restructuring into a 4-year secured term loan (the "ST Loan") of HK\$36 million face value. The principal repayment of the ST Loan will commence from October 2004;
- (e) The issue by the Company to the Participating Banks two tranches of convertible bonds of approximately HK\$90.4 million face value in total, maturing in September 2009;
- (f) The default interest currently payable by the Group, of approximately HK\$16 million, will be waived by the Participating Banks and deemed to be extinguished in September 2003 in the absence of an event of default under the terms of the DRD.

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## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2003 the Group's bank and other borrowings, inclusive of the two tranches of convertible bonds outlined under capital structure below, amounted to HK\$189.9 million which is a reduction of HK\$57.9 million from its borrowings of HK\$247.8 million at the same time last year. The reduction in the Group's borrowing was due to the completion of the debt restructuring on 19 September 2002.

Of the Group's total borrowings at 31 March 2003:

- (i) HK\$45.8 million is at floating interest rates and HK\$144.1 million is at fixed interest rates.
- (ii) 72% is denominated in HK\$ and 28% in Rmb.

As at 31 March 2003, the Group's deficiency in assets and net current liabilities were approximately HK\$30.5 million (31 March 2002: HK\$75.6 million) and HK\$34.7 million (31 March 2002: HK\$226.1 million) respectively.

Due to the capital deficiency position at 31 March 2003, the gearing ratio calculated as a percentage of the Group's consolidated borrowings and finance lease payables has remained a meaningless figure.

## CHARGE ON GROUP'S ASSETS

Details of the charge on Group's assets are disclosed in note 23 to the audited financial statements for the year ended 31 March 2003.

## CAPITAL STRUCTURE

During the year under review, the Group completed:

- (i) a capital reduction and share subdivision which had the effect of (a) reducing the paid up capital and nominal value of the issued share capital of the Company from HK\$0.10 per share to HK\$0.01 per share and (b) subdividing each of the un-issued shares of HK\$0.10 each for the authorised share capital of the Company into ten shares of HK\$0.01. Details of the above were set out in the Company's circulars to shareholders dated 16 October 2001 and 5 July 2002;

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- (ii) an open offer to raise HK\$31.4 million, before related expenses, which was applied to the reduction of the Group's bank borrowings under the terms of the DRD. Details of the open offer were set out in the Company's prospectus dated 16 August 2002;
- (iii) the issue to the Participating Banks of a first tranche 3% Secured Convertible Bonds (the "CB One") of HK\$40 million face value, maturing 7 years from 19 September 2002 with conversion rights at a price of HK\$0.05 per share. The outstanding amounts of the CB One will be redeemed by the Company on the maturity date; and
- (iv) the issue to the Participating Banks of a second tranche 1.5% Secured Convertible Bond of HK\$50.4 million (the "CB Two") maturing 7 years from 19 September 2002 with conversion rights at a price of HK\$0.20 per share. The outstanding amounts of CB Two will mandatorily be converted into shares of HK\$0.01 each of the Company on the maturity date.

### EXPOSURE TO FOREIGN EXCHANGE FLUCTUATION

The Group's monetary assets and liabilities were principally denominated in Hong Kong dollars, Renminbi and U.S. dollars. Inasmuch as the Hong Kong dollar is pegged to the U.S. dollar, and that there has been minimal fluctuation in exchange rate between Hong Kong dollars and the Renminbi, the Group's exposure to currency exchange risk was minimal.

### CONTINGENT LIABILITIES

As at 31 March 2003, the Group had contingent liabilities in respect of corporate guarantee for banking facilities granted to independent third parties for an amount of HK\$1,869,000 in total.

Save for corporate guarantees given by the Company to the Participating Banks to secure general banking facilities and finance leases granted to certain wholly owned subsidiaries of the Company, the Company had no significant contingent liabilities as at 31 March 2003 (2002: nil)

### EMPLOYEES

As at 31 March 2003, the Group had approximately 420 full time managerial, administrative and manufacturing employees. The Group affords competitive remuneration packages to its employees based on prevailing industry practice and provides to most of its employees in the PRC with rent-free quarters and messing. Compensation policies are reviewed regularly and are designed to reward and motivate productivity and performance.

No share options were granted during the year under review.