BUSINESS REVIEW AND PROSPECTS

For the year ended 31 March 2003, the Group recorded a turnover of HK$107 million (2002: HK$76 million), representing an increase of 40% over the previous year. Gross margin improved to 30% (2002: 20%) and the net profit of the Group was HK$2.7 million (2002: HK$1.6 million), representing a growth of 68%. Earnings per share were HK$0.06 cents (2002: HK$0.04 cents per share).

Snap off blade cutter business

Affected by the price adjustment in 2002 and unfavorable global economic environment, the turnover of the snap off blade cutter business fell to HK$44.5 million (2002: HK$49.2 million), which was 9% lower than the previous year. The profit margin has also been affected by high raw material prices caused by the war in the Middle East. The contribution of the snap off blade cutter business to the Group fell correspondingly to HK$5.9 million (2002: HK$10.6 million). The management has expected the deterioration of the results and viewed it as a necessary adjustment.

Sales volume of snap off blade cutter business has gradually picked up since the price adjustment. Several models with new features have been successfully developed and launched. The marketing team has also successfully expanded and diversified the customer base by participating in local and overseas trade exhibitions. The management is therefore confident that the performance of the snap off blade cutter business will improve in terms of sales and profitability this year and has planned to expand the production capacity of the metal alloy die-casting production line to cope with the increasing demand for this type of products.

Consumer electronics business

The consumer electronics business recorded a 127% growth in turnover. The high growth in the segment is mainly attributable to the strong growth in sales of beauty care and new ODM products. The inventory and receivable managements of the business segment have also shown significant improvement over the year. The result of the consumer electronics business turned around from a deficit of HK$3.5 million to a surplus of HK$6.8 million, evidencing that the management had successfully restructured the business segment.

Since April 2003, the consumer electronics business has received orders comparable to the same period last year. Many new OEM and ODM products are currently under development and they are expected to be launched by year-end. The management is confident that the good performance of the consumer electronics business segment will continue in the current financial year.

Geographical segment analysis

The Group's client base is quite well diversified in terms of geographical locations. Since sales were classified according to the location of immediate clients, there was a higher concentration in the Hong Kong market in the year ended 31 March 2003. Most of the goods sold to our clients in Hong Kong were in fact re-exported to other countries.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2003, the current and non-current liabilities of the Group amounted to HK$43.9 million (2002: HK$55.6 million) and HK$12.1 million (2002: HK$4.0 million) respectively. The amount of net current liabilities was further narrowed to HK$7.2 million (2002: HK$18.7 million). The Group's operating cash flow turned around from an outflow of HK$10.0 million last year to an inflow of HK$10.8 million this year. The gearing ratio, defined as the percentage of total borrowings to shareholders' funds, remained at about 47%.

The improvement of the net current liability position was mainly attributable to the successful restructuring of approximately HK$6 million of short-term bank loans to long-term bank loans. The turnaround in the cash flow position also allowed the Group to repay about HK$6 million of short-term bank loans during the year. The Group is currently in negotiation with a bank to restructure approximately HK$8 million of short-term bank loans to long-term loans. The net current liability position will be rectified if this is successfully concluded in September 2003 as scheduled.

Among the HK$24.2 million interest-bearing borrowings repayable within a year, HK$14.4 million has been fully repaid and HK$4.7 million has been rolled over. Sufficient amount of credit facilities has also been secured for the Group's peak-season operations from June to November this year. The management has already had a plan to repay the HK$11.6 million long-term bank borrowings in order. On the other hand, the operations of the Group will continue to generate cash inflow and help increase the Group's financial resources. From the management's point of view, the amount of financial resources available to the Group is adequate.

INVESTMENT POSITION AND PLANNING

Most of the Group's investments held were industrial properties situated in Mainland China[1] and Hong Kong. Although these investments yielded substantial rental income for the Group, their valuations fell in line with the market conditions. The adverse impact of lower valuations was directly reflected in the profit and loss account and affected the overall performance of the Group.

1. A significant portion of the Group's land and buildings in Mainland China were reclassified as investment properties after the conclusion of the long-term contracts to lease out these vacant industrial properties.

Since these industrial properties are held as long-term investments, more focus will be put on the management of the leases to ensure that these investments will continue to provide a stable stream of income for the Group. The management is optimistic about the prospects of these investments over long term given the rapid industrialization of the Pearl River Delta and the development of CEPA agreement between the Central Government and the Hong Kong SAR Government.

The Group has planned to spend about HK$2.5 million to upgrade Northern Industrial Complex, the Group's production base in Mainland China, and about HK$1.0 million to upgrade its production facilities and raise its production capacity. Additional budget may be approved if new production equipment is required for efficient completion of new OEM orders. These investments in capital assets will be financed by internally generated funds.

The Group did not have any significant investment position in stocks, bonds and other financial derivatives. The Group's exposure to fluctuations in exchange rates was very limited because most of its assets, liabilities and transactions were denominated in Hong Kong Dollar, or in other currencies such as US Dollar and Renminbi, which exchange rates against the Hong Kong Dollar are relatively stable.

SHARE CAPITAL AND SHARE OPTION SCHEME

The share capital of the Company comprises only 4,544,457,705 ordinary shares of HK$0.01 each. There was no change in the share capital of the Company during the year ended 31 March 2003.

The share option scheme of the Company adopted on 10 September 1992 (the "Old Scheme") expired on 10 September 2002. All outstanding share options granted pursuant to the Old Scheme were lapsed on the same date.

A new share option scheme of the Company was adopted and became effective on 4 October 2002 (the "New Scheme"). During the year, share options to subscribe for in aggregate of 345,350,000 shares of the Company in HK$0.01 each with subscription price of HK$0.01 per share were granted to certain directors and employees of the Company pursuant to the New Scheme.

CHARGES ON GROUP'S ASSETS

The Group's properties are all situated in Hong Kong and Mainland China. At 31 March 2003, all the Group's properties in Hong Kong (2002: 58%) and approximately 72% (2002: 82%) of the Group's properties in Mainland China were pledged to banks to secure credit facilities for the Group.

CONTINGENT LIABILITIES

The Group's contingent liabilities as at 31 March 2003 were HK$2.2 million (2002: Nil) in relation to export bills discounted with recourse.

As at 31 March 2003, the Company had provided corporate guarantees to the extent of HK$60.3 million (2002: HK$9.4 million) to certain banks in respect of credit facilities granted to its subsidiaries.

ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There were no acquisition and disposal of subsidiaries and associated companies during the year.

EMPLOYEES

The Group has approximately 1,000 employees. Most of the employees are working in Northern Industrial Complex. Employees are remunerated on a performance basis with reference to market practices. Share option scheme is adopted to encourage personal commitment of employees to achieve the Group's business goals.

By Order of the Board

CHONG SING YUEN
CHAIRMAN

Hong Kong, 22 July 2003