

# Management Discussion and Analysis

## Business Review

The Group's turnover for the Year decreased by HK\$36 million, or 27% to HK\$97 million. The loss attributable to shareholders for the Year increased by HK\$14 million, or 28% to HK\$62 million. The Board does not recommend the payment of any final dividend in respect of the Year (2002: nil).

During the Year, the Group has completed its operational restructuring by disposing of its garment, shoes and leather goods business. The Group's car audio business continued to be adversely affected by intense market competition and global economic uncertainties, particularly in the United States. In the face of the uncertain global economic and financial picture for the Year, the Group has been diligently identifying investment opportunities that strategically fit into its diversification moves.

## Garment, shoes and leather goods business

In view of the persistent downward price pressures, high incidence of bad debts and stock obsolescence and the highly competitive business environment of retail market, the Board believes that the garment, shoes and leather goods business in the PRC will become more and more competitive. As such, the Group has decided to restructure its existing business operations by disposing of its garment, shoes and leather goods business.

On 16 September 2002, the Group entered into a sales and purchase agreement with an independent third party for the disposal of the entire issued share capital in Chaifa Holdings (B.V.I.) Limited, an investment holding company which held the entire garment, shoes and leather goods business for a consideration of HK\$17 million in cash. The details of which have been provided in announcement dated 17 September 2002. The transaction was completed on 14 March 2003. The gain on the disposal of the discontinued operations was approximately HK\$5.9 million. The Board believes that the disposal will allow the Group to reduce its exposure in the garment and shoes business which suffered significant loss as a result of significant provision for doubtful debts and stock obsolescence.

## Car audio business

The sales of car audio products for the Year fell by 56% to HK\$12 million. The segment loss increased from HK\$6.0 million to HK\$19 million. Stripping out the impairment of goodwill HK\$5 million and the provision for doubtful debts of HK\$2 million, the operational loss for this segment was HK\$12 million.

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The sharp sales decrease was mainly due to the recent financial restructuring of a major customer in the United States market. This reflected the mounting price pressures, the rapid deteriorating profit margins and intense market competition prevailing in the car audio business as a whole. Due to the sudden outbreak of Iraq war in the second half of the Year, the aggregate market demand for the car audio products has become more stagnant and the inventory stocking remained excessive on retail shelves and at warehouses. Importers and distributors in the markets, in particular, United States continued to substantially reduce the inventory buildup in earnest by slashing future sales orders. This resulted in a cut-throat price competition in the car audio manufacturing market.

Against this backdrop, the Group has taken a course of proactive and remedial initiatives to reduce the incidence of fixed manufacturing overheads. The operational and financial corrective actions taken included trimming down the scale of operations, enhancing the operational efficiency and subcontracting the low-end products to business partners. For the Year, the Group has taken immediate measures to reduce the fixed manufacturing overheads through the cost reduction exercise. Such cost savings was beginning to realize and narrow the increasing operational loss in the year to come.

### Prospects

A combination of global economic uncertainties, deceleration of consumption growth and the deflation in the region remains challenging and difficult to the Group for the year to come. After the disposal of the garment, shoes and leather goods business, the Group has reduced its financial exposure in the declining business.

In view of the growing market demand for greater products values and lower cost intensity in the car audio manufacturing business, the Group will continue to make its outsourcing endeavors to achieve cost efficiencies and leverage capabilities of its business partners. In addition, the Group will also strengthen its trading platform to expand the trading and distribution business of car audio and the associated value- added services.

During the Year, the Group has been intensifying its efforts searching across various industries for suitable investment opportunities which will bring in core competence and generate a steady source of income. However, the sudden outbreak of Iraq war and health crisis in the second half of the Year has further jarred the already weakened business confidence and led many firms to reassess and postpone their corporate investment plans. As a result, the progress of negotiating and concluding investment opportunities has been forced to slow down.

Looking forward, the Group will continue to consolidate the existing business and diversify into new solid businesses. To this end, the Board believes that the Group can overcome the challenges and earmark quality investments for business growth in the future.

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## Financial Review

The loss attributable to shareholders for the Year increased by HK\$14 million to HK\$62 million as compared that of last year. As at 31 March 2003, the Group's net asset value stood at HK\$207 million (31 March 2002: HK\$264 million). The Group's overall liquidity and gearing position was significantly improved as a result of disposal of the debt laden garment shoes and leather goods business

## Liquidity and Financial Resources

During the Year, the Group generally financed its operation with internally generated cash flow and banking facilities. The Group's bank and short term deposits as at 31 March 2003 amounted to HK\$21 million (at 31 March 2002: HK\$49 million).

As at 31 March 2003, the total interest bearing bank and other borrowings of the Group maintained at HK\$8 million (at 31 March 2002: HK\$93 million) which are repayable within one year.

As at 31 March 2003, the Group's current ratio was 11.2 times (at 31 March 2002: 2.3 times) based on current assets of HK\$202 million (at 31 March 2002: HK\$336 million) and current liabilities of HK\$18 million (at 31 March 2002: HK\$144 million).

As at 31 March 2003, the banking facilities granted to, a previously wholly-owned subsidiary which was disposed of, during the Year subject to corporate guarantees given to banks by the Company were utilised to the extent of approximately HK\$13 million (at 31 March 2002: HK\$30 million).

## Capital Structure

As at 31 March 2003, the Group's gearing ratio was 4% (at 31 March 2002: 35%) based on the total interest-bearing bank and other borrowings of HK\$8 million (at 31 March 2002: HK\$93 million) and net worth of HK\$207 million (at 31 March 2002: 264 million).

The Group bank deposit and borrowings are mainly denominated in Hong Kong dollar. Most of Group's sales and purchase are made in United States dollar, Renminbi and Hong Kong dollar. Therefore, the exchange risks exposed to the Group is minimal.

## Significant Investments

As at 31 March 2003, the Group had convertible notes issued by a company listed on The Stock Exchange of Hong Kong Limited with carrying amount of HK\$10.5 million. Further information on convertible notes is provided in Note 19 on the financial statements on page 56.

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As at 31 March 2003, the Group maintained a portfolio of other securities with market value of HK\$166.6 million. Due to the market volatility of returns and poor investor sentiment on equity markets, the Group recorded a realised loss of HK\$21.2 million and an unrealised loss of HK\$7.5 million on other securities respectively during the year.

The interest and dividend income for the convertible notes and other securities for the year was HK\$4.5 million. The Group continues to maintain a positive view on the performance of its portfolio of investments for the year to come.

### Details of Charges on Assets

At 31 March 2003, a fixed deposit of HK\$6 million and an unlisted investment fund of HK\$3.9 million were pledged to secure banking facilities granted to the Group.

### Material acquisitions and disposals

During the Year, the Company had no other material acquisition and disposal of other subsidiaries and associates except for the disposal of its entire issued share capital in Chaifa Holdings (B.V.I) Limited, a former wholly-owned subsidiary of the Company.

### Employment, Training and Development

At 31 March 2003, the Group has a total 219 employees of which 26 are based in Hong Kong and 193 based in Mainland China. The Group has committed itself to its staff training and development and structured training programs for all employees.

Remuneration packages are maintained at competitive level and reviewed on a periodic basis. Bonus and share options are awarded to certain employees according to the assessment of individual performance and industry practice.

On behalf of the Board

**Wong Howard**

*Executive Director*

Hong Kong, 17 July 2003

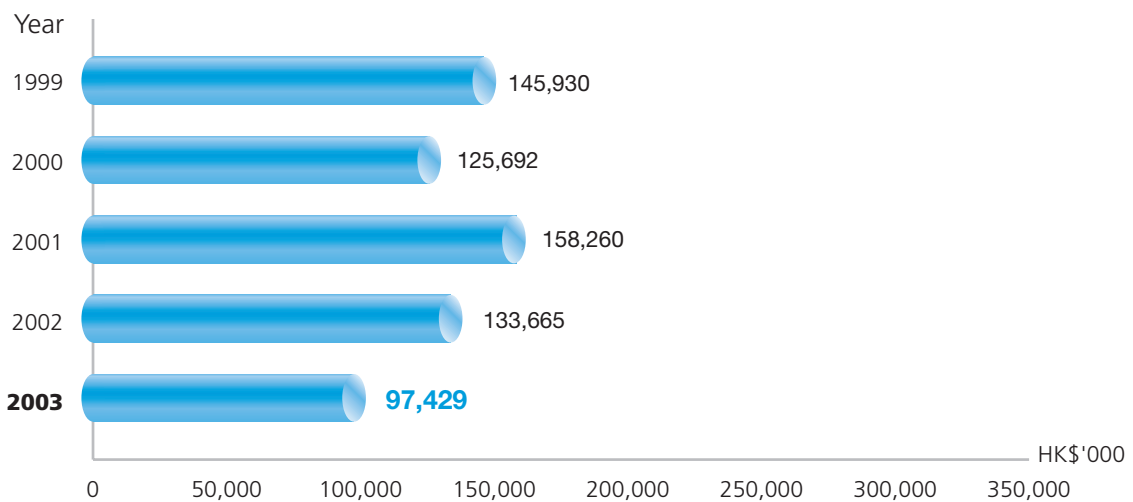
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### Financial Highlights

	2002/2003	2001/2002
Turnover	<b>HK\$97,429,000</b>	HK\$133,665,000
Net loss from ordinary activities attributable to shareholders	<b>HK\$(61,898,000)</b>	HK\$(48,265,000)
Basic loss per share	<b>HK0.72 cents</b>	HK0.62 cents

### Turnover

(For the year ended 31 March)



### Net Loss from Ordinary Activities Attributable to Shareholders

(For the year ended 31 March)

