

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

As at 31 March 2003, the total assets and net assets of the Group were approximately HK\$156.6 million and HK\$114.5 million, compared with last year's total assets of approximately HK\$143.2 million and net liabilities of approximately HK\$255.7 million, representing an increase of approximately HK\$13.4 million and HK\$370.2 million respectively.

On the other hand, as at 31 March 2003, the Group's consolidated shareholders' equity was approximately HK\$114.5 million, compared with last year's negative balance of approximately HK\$255.7 million. The Group's financial position improved significantly after the completion of the group restructuring in August 2002.

The management believes that the existing financial resources are sufficient for its current expansion plan. If the Group requires additional funding to capture business opportunities that may arise in the future, the management believes that the Group will be able to obtain financing at favourable terms.

Liquidity and financial resources

The gearing ratio of the Group as at 31 March 2003, calculated as a ratio of total borrowings to total assets, was approximately 6%. The Group's cash position was increased to approximately HK\$10.8 million from approximately HK\$1.5 million as of last year. Following the full conversions of issued HK\$30 million convertible notes during the year under review and subsequent to the year-end, the financial position of the Group will further improve.

Convertible notes

Upon the completion of the restructuring in August 2002, HK\$30 million zero coupon 5-year convertible notes were issued. During the year under review, HK\$9.5 million convertible notes were converted into shares. Subsequent to the year-end, the balance of HK\$20.5 million convertible notes were also fully converted into shares. As a result, the capital bases of the Group were further strengthened.

Investments

The Group had no significant investments held as at 31 March 2003.

Employees and remuneration policy

As at 31 March 2003, the Group employed a total of approximately 500 employees in the PRC and Hong Kong. They were remunerated according to the nature of job and market condition. Other employee benefits available for eligible employees included period-end payment, staff canteen, mandatory provident fund, share option and medical insurance scheme.

Foreign exchange and currency risks

Since most of the revenue generated from the sale of products and the payment for purchases of materials, components, equipment and salaries are either made in Hong Kong dollars, Renminbi, or Hong Kong dollars pegged currencies, no use of financial instruments for hedging purposes is considered necessary and the exposure to exchange rate fluctuations is minimal.

Contingent liabilities

As at 31 March 2003, the Company had no significant contingent liabilities.