Operation Review

During the year, the Group principally engaged in property investment and development; design, manufacturing and marketing of consumer electronic products; and provision of electronic manufacturing services. Turnover for the year was approximately HK$100.6 million (2002: HK$215.3 million) and a net profit of HK$0.19 million (2002: HK$52.2 million) was recorded. The net assets value of the Group amounted to HK$2,364.2 million, representing a value of HK$0.079 per share.

Although the difficult environment in electronic learning toys and electronic manufacturing services industries was subsisted, the Group's posted satisfactory result. The Group was operating under extreme financial difficulties in the past few years. Given the effort and several restructuring activities carried out, we are pleased to see a turnaround situation. Despite the decline in the Group's turnover and excluding the impact of liabilities waived by unsecured creditors through the exercise of scheme of arrangement in the last financial year, the Group posted a slim profit compared to a net loss of HK$37.6 million recorded in the last year. Gross profit margin also expanded to 24.4% from last year's 7.1%.

Consumer Packaged Electronics

During the year, turnover from this division was approximately HK$64.0 million (2002: HK$147.1 million) and a reduced segmental loss of approximately HK$15.6 million (2002: HK$40.5 million). The result was attributed by the effective cost-cutting measures implemented during the year. The retail market sentiment in US remained sluggish. Most of our US customers expected to have the delivery shortly after placing their orders. However, the relative long lead-time for sourcing the supply of certain components forced us to give up some of such orders. The management therefore keeps on negotiating with those customers in order to cater any orders to be placed.

Electronic Manufacturing Services ("EMS")

Turnover from this division was approximately HK$36.5 million (2002: HK$64.7 million) and a segmental loss of approximately HK$5.2 million (2002: HK$2.3 million) was recorded during the year. EMS business in Asia has been extremely competitive leading to slimmer profit margin. As such, the management continues to focus on reducing the overheads and centralizing the operation base in China.

Property Development and Investment in China

During the year, the Group recorded no sales turnover and a segmental profit of approximately HK$9 million (2002: HK$4.6 million) for this business division. In addition, the Group disposed its interest in a property development project in Nanjing producing a gain of HK$20 million. The major property development projects are in Shenzhen, and Guangzhou of which the Company owns 49% equity interest and the remaining 51% equity interest is owned by its holding company.

The government authority has approved the detailed urban planning design of the Shenzhen project, and development of such project will be in five phases. A renowned French design firm, selected via a public tender, has completed the first phase construction design involving gross floor area of approximately 170,000 sq. m.. Government approval of the construction project conceptual design is in progress. Comprehensive construction work is expected to start by the end of 2003, and this project will generate strong cashflow for the Group in the next financial year.

The Guangzhou project involves a total gross floor area of 1.08 million sq. m., and construction work for the first phase is expected to start in early 2004.

Liquidity, Financial Resources and Capital

The Group continues to adopt prudent funding and treasury policies. As at 31 March 2003, net assets value of the Group was approximately HK$2,364 million, including cash and bank balances of approximately HK$8.8 million which was denominated mainly in Reminbi and Hong Kong dollars. As at 31 March 2003, the Group's aggregate borrowings other than convertible notes issued decreased to HK$522 million (2002: HK$709 million); and no convertible loan notes issued by the Company were remained outstanding (2002: HK$210 million). The Group has reached an agreement with a creditor (the noteholder of a matured convertible loan note in the principal sum of HK$210 million) that HK$210 million together with all accrued interest thereon will be repaid on 31 December 2003. The decrease in borrowings is due to repayment of RMB200 million to bank during the year. For the Group's borrowings at 31 March 2003, approximately HK$422 million were bearing interest at fixed rates while approximately HK$310 million were at floating rates. The gearing ratio of the Group, measured on the basis of total borrowings as a percentage of total shareholders' equity, decreased to 31% as of 31 March 2003 from 39% as at 31 March 2002. The Group's contingent liabilities at 31 March 2003 were HK$37 million due to the guarantees given in connection with credit facilities granted to a third party.

As at 31 March 2003, fixed assets with the net book value of HK$55 million (2002: HK$93.5 million); floating charge over other assets of certain subsidiaries within the Group; charge over shares in certain subsidiaries within the Group; and land with lot no. K708-5 at Liu Wan, Shekou, China together with all its sales proceeds were pledged as securities for credit facilities.

Effective 2 May 2002, the nominal value of share in the share capital of the Company was reduced from HK$0.10 each to HK$0.01 each. The authorized capital of the Company is HK$5,000,000,000 divided into 500,000,000,000 shares of HK$0.01 each, of which 29,931,804,183 shares have been issued and are credited as fully paid up.

Exposure to Fluctuations in Exchange Rate

As the majority of the Group's borrowings and transactions are denominated in Hong Kong dollars, US dollars and Reminbi, the Group's exposure to exchange rate fluctuations is relatively insignificant. In general, the Group mainly utilizes its Reminbi income receipt for capital requirements expenditures in China and has not used any financial instruments for hedging RMB bank borrowings during the year and such borrowings were mainly used for Reminbi capital requirements in China.

Employee

The Group employs and remunerates its staff based on their qualifications, experience and performance. In addition to basic salary payments, other benefits include contributions to provident fund schemes, group medical insurance, group personal accident insurance and external training sponsorship. Employees are eligible to be granted share options under the Company's share option scheme at the discretion of the Board. In general, salary review is conducted annually. At 31 March 2003, the Group had approximately 387 employees (2002: 1,162 employees). The salaries and allowance of employees for the year ended 31 March 2003 was approximately HK$21.7 million (2002: HK$42.4 million).

Prospect

The Group will continue to focus on its property development projects in Shenzhen and Guangzhou, which are expected to generate strong cash flow and profitable in the next few financial years. In addition, the management will keep on focusing on the property development projects in high economic growth cities in China, and also on seeking for potential investment opportunities so as to further strengthen our revenue base and in turn, to maximize our shareholders' value.

Regarding the manufacturing business, the management will continue to implement stringent cost control to further reduce the operating expenses and to improve manufacturing efficiency. The corporate restructuring process is expected to complete in the next financial year to ensure a larger customer base and be better positioned for future success.