FINANCIAL REVIEW

Although the Group faced the adverse business environment in the first-half of the year, the Group still had a slightly increase in its total net asset by HK$10.1 million compared with last year. Details of the variances are summarised as follows:

	Increase/(Decrease) in the Group's total net assets HK$ million
Fixed assets	(16.2)
Negative goodwill	18.3
Interests in associates	4.7
Prepaid rental	(0.7)
Rental deposits	(0.6)
Deferred product development costs	0.6
Cash and bank balances and time deposits	134.1
Accounts receivable, bills receivable, prepayments, deposits and other receivables	44.5
Loans receivable and interest receivable on loans	(98.3)
Properties held for sale	(7.3)
Inventories	(23.8)
Accounts payable, accrued liabilities and other payables	(49.8)
Due to associates	(3.9)
Taxation (including tax payable and deferred tax liabilities)	(0.8)
Provision for long service payment	0.2
Minority interests	9.1
Net increase in Group's total net assets	10.1

As at 31 December 2003, the Group's properties in both Hong Kong and the Mainland China were revalued by a professional surveyor in accordance with the open market values. Under this valuation, the property value as a whole was depreciated by approximately HK$2.3 million of which HK$1.0 million was charged to profit and loss account and HK$1.3 million was charged to the property revaluation reserve.

During the year, the Group has invested about HK$17 million of fixed assets for manufacture of lithium rechargeable battery parts in Shenzhen. All capital expenditure was financed by the internal resources of the Group.

After the open offer of Swank in 2003, a negative goodwill of HK$5.2 million was arisen. During the year, a total of HK$23.5 million negative goodwill was recognised as income in which was derived from acquisition of Swank during the year and in 2002 and additional investment in a subsidiary in 2002.

Owing to the new sub-contracting business on battery parts which required a comparatively longer credit period, in addition to an extended credit for PCB business, the balance of accounts receivable increased by HK$35.6 million. The balances were partly offset by drop in Swank account receivables by HK$7.2 million as turnover decreased.

A property held for sale was disposed during the year and the values of the remaining properties on hand were decreased by HK$3.0 million upon the revaluation performed by a professional surveyor.

Loans receivable and interest receivables on loans in 2002 were substantially repaid and major balance as at 31 December 2003 represented new loans granted.

In view of the tightened inventory control during the year, the balance of inventory was decreased by HK$23.8 million.

In order to balance the position of accounts receivable, it was unavoidably re-arranging the credit terms on accounts payable that led to an increase in the related balance by about HK$49.8 million as at the balance sheet date.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2003, cash and bank balances (including time deposits) maintained by the Group were HK$456.6 million, representing an increase of HK$134.1 million compared with the position as at 31 December 2002. On the other hand, the banking facilities of HK$178 million are available to the Group. It is believed that the Group has adequate cash resources to meet the normal working capital requirements and all commitments for future development. The gearing of the Group, measured as total debts to total assets, was 23.7% as at 31 December 2003, comparing with 20% as at 31 December 2002.

Most of the business transactions conducted by the Group were nominated in Hong Kong Dollars, United States Dollars and Renminbi. As at 31 December 2003, there were no outstanding forward contract in foreign currency committed by the Group that might involve it in significant foreign exchange risks and exposures.

CAPITAL STRUCTURE

During the year, with a view to facilitate raising funds or acquiring assets by way of allotment or placement of shares in future, the Company underwent a capital restructuring exercise whereby the par value of paid up capital of each issued shares was reduced from HK$0.10 to HK$0.001 by the cancellation of HK$0.099 paid up capital on each issued share and the Company would then effect a share consolidation, whereby every 10 issued shares of HK$0.001 each was consolidated into 1 new share of HK$0.010 each. The capital restructuring became effective on 30 June 2003 and the then issued share capital of the Company comprised 286,068,644 new shares of HK$0.010 each.

CORPORATE MOVE

On 4 March 2003, the Company, Probest Holdings Inc. ("Probest"), an indirectly wholly-owned subsidiary of the Company and Swank entered into a conditional asset disposal agreement (the "Asset Disposal Agreement") and a conditional loan restructuring agreement (the "Loan Restructuring Agreement") to restructure the principal loan of HK$250 million and the accrued interest due to Probest. Details of the Asset Disposal Agreement and the Loan Restructuring Agreement were set out in the circular to shareholders dated 7 April 2003. Subsequently, these two agreements were terminated on 27 August 2003.

On 3 September 2003, the Company, Probest and Swank entered into a conditional share sale agreement pursuant to which Probest would acquire a 30% equity interest in Profitown Investment Corporation ("Profitown") and 30% of loan owing by Profitown to Swank at an aggregate consideration of HK$3 million (the "Share Sale Agreement"). Profitown is a wholly-owned subsidiary and an intermediate holding company of all the operating subsidiaries and associates companies of Swank. On 3 September 2003, the Company, Probest and Swank also entered into a conditional loan settlement agreement pursuant to which Probest agreed to waive the repayment of the outstanding principal loan of HK$47 million due from Swank and the accrued loan interest thereon since 1 March 2002 up to the effective date of the loan settlement agreement (the "Loan Settlement Agreement").

Moreover, Swank also proposed to raise not less than HK$37.7 million before expenses by way of an open offer on the basis of 13 offer shares at HK$0.013 each for every existing share of HK$0.01 each in the issued share capital of Swank held by the shareholders, who had addresses in Hong Kong on the register of members of Swank, as at 16 October 2003, being the date to which entitlements under the open offer would be determined (the "Open Offer"). On 3 September 2003, the Company, Probest and Swank also entered into an underwriting agreement pertaining to the Open Offer. Subsequently, net proceeds from the Open Offer of approximately HK$37.0 million was used to repay partly the loan due to Probest.

The outstanding principal loan due to Probest from Swank was reduced from HK$250 million to HK$163 million which shall be repaid by three instalments in accordance with the terms of the promissory note with maturity date of 1 June 2006. The promissory note is unsecured and bears interest at a rate equivalent to 1% over Hong Kong prime rate per annum. The Share Sale Agreement, the Loan Settlement Agreement and the Open Offer were completed in November 2003.

Upon completion of the Open Offer, the shareholding of the Company in Swank increased to 83.21%. In order to restore the minimum public float requirement of 25% of Swank shares, on 16 December 2003, Probest entered into a placing agreement with Kingsway Financial Services Group Limited ("SW Kingsway Financial"), a wholly owned subsidiary of SW Kingsway Capital Holdings Limited ("SW Kingsway"). Pursuant to the placing agreement, 412,794,000 Swank shares or approximately 13.21% of the then issued share capital of Swank were placed through SW Kingsway Financial to independent investors at a price of HK$0.0269 per share or with gross proceed of HK$11.1 million.

Furthermore, the Group entered into a sale and purchase agreement with Kingsway Lion Spur Technology Limited ("Kingsway Lion Spur") and Rich Global Investments Limited ("Rich Global"), both are the wholly owned subsidiaries of SW Kingsway, whereby Probest agreed to sell and Kingsway Lion Spur and Rich Global agreed to purchase 593,724,000 Swank shares at a consideration of HK$0.0269 per Swank share, totaling HK$16.0 million (the "S&P Agreement"). The transaction gave rise to a total gain of HK$16.0 million, of which HK$7.4 million was booked in year 2003 and HK$8.6 million will be booked in year 2004. Upon completion of the placing agreement and the S&P Agreement, the Group's shareholding in Swank was reduced from 83.21% to 51%. In addition, the Group granted an option to Rich Global, whereby Rich Global could purchase 50% interest in Probest at a consideration of HK$15.7 million within a period of 15 months from the date of an option agreement. Certain conditions need to be satisfied before Rich Global could exercise the option. Should the option be exercised by Rich Global, the Group's effective shareholding in Swank would further be reduced to 25.5%. The Board considered the transactions would eventually benefit the Group mainly in two ways. Firstly, having a strategic investor like SW Kingsway would help Swank obtain external financing and/or strategic investors in future. As the S&P Agreement was just completed in January 2004, this strategic benefit is yet to be realised. Secondly, it was a good opportunity to realise part of the investment to achieve a satisfactory gain resulting in an increase of the net asset value of the Group.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2003, the Group had approximately 5,350 employees, with more than 5,200 in the Mainland China and about 150 in Hong Kong. All employees are remunerated based on industry practice and in accordance with the prevailing labour law. In Hong Kong, apart from basic salary, staff benefits include medical insurance, performance related bonuses and mandatory provident fund would be provided by the Group.