

Management Discussion and Analysis

RESULTS OF OPERATION

The turnover of the Group increased by 4.0% to HK\$956 million and the profit attributable to shareholders was HK\$102 million for the year, which was decreased by 11.7% as compared to previous financial year. The earnings per share for the year was HK12.4 cents when compared with HK14.0 cents in last year.

The United States market continued to be the largest market for the Group's products. Sales to the United States constituted 78.1% of the Group's turnover compared with 75.1% in 2003. Sales to Europe amounted to 18.1% compared with 19.2% in 2003. Other market collectively accounted for 3.8% compared to 5.7% in 2003.

During the year under review, the gross profit margin of the Group was 35.4% which was comparable to 35.2% in last year. The slightly increase was due to the increased sales of originally designed products under licence agreements. Accordingly, the distribution expenses were increased by 40.9% to HK\$112 million and the administration expenses were increased by 4.1% to HK\$132 million for the current year under review.

BUSINESS AND OPERATION REVIEW

A detailed review of the Group's business operations and prospects is included in the Chairman's Statement.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The total shareholders' fund of the Group as at 31 March 2004 was approximately HK\$366 million (31 March 2003: HK\$328 million).

The Group maintains a very strong financial position with a very low level of debts and a high liquidity. The Group ended the year with a current ratio of 2.9 (31 March 2003: 3.0) and zero (31 March 2003: zero) gearing ratio.

The Group had a net cash surplus of approximately HK\$106 million (2003: HK\$65 million) and was deposited in the leading banks in Hong Kong in either Hong Kong dollars or United States dollars.

Net cash inflow provided by operating activities totaled approximately HK\$94 million (2003: HK\$89 million). The consistent strong cash flow from operating activities reflects the Group's strength in the working capital management to support the business operations. The Group's future cash flow from operations and its available banking facilities will provide sufficient funds to the Group to meet its operation requirements.

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FUNDING POLICY

The Group's transactions and the monetary assets are principally denominated in Hong Kong dollars or United States dollars. As a result, the Group has a minimal exposure to foreign exchange risk.

COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 March 2004, the Group had capital commitments of approximately HK\$1,232,000 in respect of the acquisition of property, plant and equipment. The Group had no material contingent liabilities other than trade bills discounted in the ordinary course of business.

PLEDGE OF ASSETS

As at 31 March 2004, certain property, plant and equipment and inventories of a subsidiary of the Company amounting to HK\$3,955,000 and HK\$20,791,000 respectively were pledged for advances from a factoring company in the United States.

HUMAN RESOURCES

At 31 March 2004, the Group had a workforce of more than 6,000 people. Remuneration packages comprised salary and bonuses based on individual merits. The Group believes that its remuneration packages are competitive as compared with other companies in the industry.

The Company has a share option scheme under which the executive directors and employees of the Company and its subsidiaries may be granted options to subscribe for ordinary shares in the Company. Up to 31 March 2004, no option was granted under the scheme.

AUDIT COMMITTEE

Pursuant to the requirements of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited, an Audit Committee of the Company was established.

The Audit Committee consists of two independent non-executive directors, namely Mr. Heng Kwo Seng and Mr. Wan Chi Keung, Aaron JP. The principal activities of the Audit Committee include the review of the Group's internal control system and financial reporting matters including the review of connected transactions and unaudited financial statements. They have met with the executive directors and the external auditors to consider the nature and scope of the audit.