

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

For the year ended 31 March 2004, the Group recorded a turnover of HK\$283.6 million representing a decrease of approximately 9.6% compared with HK\$313.8 million in the previous year. Operating loss for the year was HK\$0.7 million representing a deterioration from an operating profit of HK\$27.0 million in 2003. Net loss from ordinary activities attributable to shareholders was HK\$7.0 million, compared with a net profit from ordinary activities attributable to shareholders of HK\$10.6 million in last year. The Group's basic loss per share was HK0.24 cents (2003: basic earnings per share of HK0.48 cents).

## DEBT RESTRUCTURING

Under the terms of the Debt Rescheduling and Restructuring Deed ("DRD") in last year, all claims for default interest outstanding as at the completion date shall be waived by the participating creditors and shall be deemed to be forever extinguished twelve months after completion in the absence of an event of default as defined in the DRD during the said twelve month period. The default interest of approximately HK\$15.9 million was duly extinguished on 19 September 2003.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2004, the Group's bank and other borrowings amounted to HK\$198.2 million, including HK\$90.4 million convertible bonds, HK\$67.9 million bank loans and HK\$39.9 million other borrowings.

Of the Group's total borrowings as at 31 March 2004:

- (i) HK\$51.2 million was at floating interest rates and HK\$147.0 million was at fixed interest rates.
- (ii) 66.1% was denominated in Hong Kong dollar, 27.1% in Renminbi and 6.8% in U.S. dollar.

Cash and bank balances as at 31 March 2004 amounted to HK\$4.4 million (2003: HK\$8.3 million).

As at 31 March 2004, the Group's deficiency in assets and net current liabilities were approximately HK\$36.0 million (31 March 2003: HK\$30.5 million) and HK\$26.6 million (31 March 2003: HK\$34.7 million), respectively.

Due to the capital deficiency position at 31 March 2004, the gearing ratio calculated as a percentage of the Group's consolidated borrowings and finance lease payables has remained a meaningless figure.

## CHARGE ON THE GROUP'S ASSETS

Details of the charge on Group's assets are disclosed in Note 22 to the audited financial statements for the year ended 31 March 2004.

## MANAGEMENT DISCUSSION AND ANALYSIS

### **EXPOSURE TO FOREIGN EXCHANGE FLUCTUATION**

The Group's monetary assets and liabilities were principally denominated in Hong Kong dollars, Renminbi and U.S. dollars. Inasmuch as the Hong Kong dollar is pegged to the U.S. dollar, and that there has been minimal fluctuation in exchange rate between Hong Kong dollars and the Renminbi, the Group's exposure to currency exchange risk was minimal.

### **CONTINGENT LIABILITIES**

Details of the Group's contingent liabilities are disclosed in Note 31 to the audited financial statements for the year ended 31 March 2004.

### **EMPLOYEES**

As at 31 March 2004, the Group had approximately 417 full time managerial, administrative and manufacturing employees. The Group affords competitive remuneration packages to its employees based on prevailing industry practice and provides to most of its employees in the PRC with rent-free quarters and messings. Compensation policies are reviewed regularly and are designed to reward and motivate productivity and performance.

No share options were granted during the year under review.