## BUSINESS REVIEW AND PROSPECTS

The Group's turnover was HK$81 million (2003: HK$107 million) in the year ended 31 March 2004, representing a decrease of 24% over the previous year. Gross profit margin deteriorated to 13% (2003: 30%) partly due to large fixed factory overheads and depreciation of fixed assets. Net loss of the Group was HK$15.5 million (2003: HK$2.7 million restated profit) and loss per share was HK0.34 cents (2003: HK0.06 cents restated earnings per share).

### Consumer electronics business

The performance of the electronics business of the Group was adversely affected by the impact of SARS and the turnover for the year fell 49% to HK$30.2 million from HK$59.5 million in the previous year. The outbreak of SARS in year 2003 brought almost all OEM product development to a standstill when some capital investments were already committed for the electronics business to take off. The satisfactory growth in ODM sales during the year cushioned the fall in OEM sales but was far from being able to offset the impact since the electronics business was still very dependent on OEM. The result of the electronics business turned into a negative contribution of HK$11.4 million from a positive contribution of HK$6.8 million in the previous year.

Due to the long product development lag of OEM, the unfavorable impact of SARS receded only in June 2004. Judging from the orders in book, the electronics business is expected to regain its momentum in July to September 2004. At least six OEM items and two ODM items are under development now and all these are expected to be launched by March 2005. Productions of three OEM products are scheduled to kick-start in July 2004. Expansion of production capacity has already been planned to accommodate increasing orders.

### Snap off blade cutter business

The cutter business was relatively stable during the year. As expected, the annual turnover increased moderately by 7% to HK$47.6 million (2003: HK$44.5 million) as a result of the major price adjustment in the previous year. Adversely affected by the unexpected sharp increase in prices of raw materials during the year, the contribution of the cutter business to the Group reduced to HK$2.9 million (2003: HK$5.9 million).

The cutter business is expected to remain steady in the near future. At least five new models will be launched by March 2005 and they are expected to contribute significantly to turnover and profit of the cutter business. The marketing team will focus more on the premium market rather than the heavy tool market to seek higher profit margin. It is therefore expected that the turnover will remain about the same in the coming year with an increase in sales volume.

### Geographical segment analysis

The Group's client base is quite well diversified in terms of geographical locations. Since sales were classified according to the location of immediate clients, there was a higher concentration in the Hong Kong market in the year ended 31 March 2004. Most of the goods sold to our clients in Hong Kong were in fact re-exported to other countries.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2004, the current and non-current liabilities of the Group amounted to HK$64.5 million (2003: HK$43.9 million restated) and HK$10.7 million (2003: HK$17.4 million restated) respectively. The amount of net current liabilities widened to HK$29.1 million (2003: HK$7.2 million) mainly because of the shift of about HK$6 million long-term bank loans to current liabilities as they approached maturity and the new short-term bank loan raised to finance operating and investing activities. The Group's operating cash flow changed from an inflow of HK$10.8 million to an outflow of HK$11.6 million. The gearing ratio, defined as the percentage of total borrowings to shareholders' funds, rose from 50% (restated) to 81%.

The deterioration of the liquidity position was mainly attributable to the net outflow from operating activities. The cash flow from operating activities is expected to improve in the coming year. The Group has also reached preliminary agreement with a bank to restructure approximately HK$13.1 million of short-term loans to long-term loans, which will help improve the liquidity position.

Among the HK$43.2 million interest-bearing borrowings repayable within a year, HK$17.5 million has been fully repaid and HK$2.8 million has been rolled over. The management has already had a plan to repay the balance of the short-term loans and the HK$4.7 million long-term bank borrowings in order.

## INVESTMENT POSITION AND PLANNING

The Group's investment properties are situated in Northern Industrial Complex, Panyu, Guangdong Province, PRC and Fo Tan Industrial Centre, Fo Tan, Hong Kong. The properties are rented out for manufacturing, storage and office purposes. Since these industrial properties are held as long-term investments, more focus will be put on the management of the leases to ensure that these investments will continue to provide a stable stream of income for the Group. The management is optimistic about the prospects of these investments over long term given the rapid industrialization of the Pearl River Delta and the development of CEPA between the Central Government and the Hong Kong SAR Government.

Aware of the liquidity position, the Group does not have any plan to spend on fixed asset investment in the coming year but special budget may be approved if new production equipment is required for efficient completion of new OEM orders. The Group may consider disposal of some investment properties when circumstances require.

The Group did not have any significant investment position in stocks, bonds and other financial derivatives. The Group's exposure to fluctuations in exchange rates was very limited because most of its assets, liabilities and transaction were denominated in Hong Kong Dollar, or in other currencies such as US dollar and Renminbi, which exchange rates against the Hong Kong Dollar are relatively stable.

## SHARE CAPITAL

During the year ended 31 March 2004, the Company has issued 259,350,000 ordinary shares pursuant to the exercise of share options by certain directors of the Company and employees of the Group. At 31 March 2004, the share capital of the Company comprised only 4,803,807,705 ordinary shares of HK$0.01 each.

## CHARGES ON GROUP'S ASSETS

The Group's properties are all situated in Hong Kong and Mainland China. At 31 March 2004, all the Group's properties in Hong Kong (2003: 100%) and approximately 88% (2003: 72%) of the Group's properties in Mainland China were pledged to banks to secure credit facilities for the Group.

## CONTINGENT LIABILITIES

The Group's contingent liabilities as at 31 March 2004 were Nil (2003: HK$2.2 million) in relation to export bills discounted with recourse.

As at 31 March 2004, the Company had provided corporate guarantee to the extent of HK$88.1 million (2003: HK$60.3 million) to certain banks in respect of credit facilities granted to its subsidiaries.

## ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There were no acquisition and disposal of subsidiaries and associated companies during the year.

## LEGAL PROCEEDINGS AGAINST ASG CAPITAL LIMITED AND ASG BROKERAGE LIMITED ("ASG")

On 9 December 1997, the Company entered into placing and underwriting agreements with ASG (the "Agreements") which agreed to place and underwrite an aggregate of 100 million new shares in the Company to independent investors at a placing price of HK$0.40 per share. However, ASG failed to fulfill its placing and underwriting obligations in accordance with the terms of the Agreements. The Company has instituted legal proceedings against ASG and the proceedings are being continued.

## EMPLOYEES

The Group has approximately 780 employees. Most of these employees are working in Northern Industrial Complex, the Group's manufacturing plant in Panyu, Guangdong Province. Employees are remunerated on a performance basis with reference to market practices. Share option scheme is adopted to encourage personal commitment of employees to achieve the Group's business goals.

By Order of the Board

**CHONG SING YUEN**
*CHAIRMAN*

Hong Kong, 28 July 2004