



## CAPITAL COMMITMENTS

At 30 September 2004, the Group has capital expenditure of about HK\$915,000 in respect of the acquisition of plant and equipment authorised but not contracted for.

## INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 September 2004 (2003: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

The Group recorded a turnover of approximately HK\$129,364,000 for the six months ended 30 September 2004. It represents an increase of 16.7% or HK\$18,524,000 as compared with the same period last year of HK\$110,840,000. Gross profit margin narrowed from 28.5% achieved in the first six months last year to 24.8% in the current period as a result of severe competition in the industry. However, the Group has successfully curtailed the administrative expenses. With the increased turnover, the Group has achieved a net profit for the period in the amount of approximately HK\$1,548,000 in the period under review. The result represents an increase by more than four times or HK\$1,256,000 over the same period last year.

### Clock and Other Office Related Products

The Division's operations comprise the manufacturing of clocks, gifts and premium products, and other office related products on both OEM and ODM basis for customers. The Group is considered as one of the leading players in clock industry by virtue of its more than 20 years of experience in the clock manufacturing and owning the famous German brand name "Wehrle" and own brand name, "KLIK" and "Artex". The Division enjoys competitive cost advantage and efficiency from the Group's vertically integrated manufacturing operations particularly the Electroplating Services Division and the newly established wood work factory in Gaoming, Foshan City, the PRC.

During the period under review, the Division has repositioned its marketing strategy to expand its sales force into the retail market, the effort proved to be rewarding. For the six months ended 30 September 2004, the Division achieved a turnover of HK\$84.5 million as compared with HK\$72.4 million for the same period last year. This represents an increase of HK\$12.1 million. In particular, OEM sales increased by approximately HK\$1.5 million; Brand products sales increased by HK\$7.3 million and the other office related products sales also grew by HK\$3.3 million.

During the period under review, the recovery of the world economy has been slow following the aftermath of the Iraq war. The clock industry remained severely competitive and it was further aggravated by the rise in materials cost as a result of the PRC's tightening of macro-economic policy. The profit margin of the Division was inevitably affected. Nevertheless, with the increase in turnover, the Division was able to report a segment trading profit of HK\$5,036,000 in the first half of this year, the result represents an increase of HK\$1,001,000 as compared with the same period last year.

### **Lighting Products**

The Lighting Products Division reported a turnover of HK\$10.7 million for the first six months of this financial year. It represents an increase of HK\$4.2 million, as compared with HK\$6.5 million for the same period last year.

The profit margin of the products was under pressure as a result of rising materials cost, yet the Division still recorded an improved segment trading profit of HK\$673,000 as compared with the corresponding period last year, of HK\$432,000.

The construction of the new factory in Gaoming, Foshan City, the PRC has now been completed and started trial runs. It is expected that the factory will become fully operational after the coming Chinese New Year and the production capacity of the Division will double the existing capacity, deploying with more high-tech equipment and advanced technology. The Management believes that the new factory will boost the turnover of the Division and will achieve the benefits of economic of scale with the effect of reducing cost and improving efficiency.

### **Trading**

The Division mainly engages in trading of metal in the PRC market. During the period under review, the business was inevitably affected by the PRC government's tightening of macro-economic policy. The Division reported a turnover of HK\$26.6 million with a segment trading profit of HK\$183,000 as compared with HK\$25.3 million and HK\$306,000 respectively in the same period last year.

Whereas the Management looks upon the business as an important source of marketing intelligence to the Group's other business, especially in the PRC market, the Management does not expect the Division to make substantial contribution to the Group's bottom-line in the second half of the year.



## Electroplating Services

The Electroplating Services Division recorded a turnover of HK\$7.7 million in the first six months period of this financial year as compared with HK\$6.6 million in the same period last year, an increase of HK\$1.1 million. It reported a segment trading profit of HK\$1,493,000 in the period under review as compared with HK\$1,800,000 in the same period last year.

Electroplating Services Division forms an integral part of the Group's vertically integrated manufacturing operation and it provides high quality electroplating services to other customers. The Division's factory has long been established in its present location. It has been accredited with ISO certification in 2001 and accomplished the local government's requirements with respect to environmental protection. It also established long term relationship with suppliers for the supplying of restricted material such as potassium gold cyanide「氰化亞金鉀」which is an important ingredient for the use in the electroplating process.

It is expected that the PRC government will further tighten up environmental protection measures with the effect of imposing further restrictions in operating electroplating services in the area. The Division will strengthen its competitive advantages in terms of its long establishment and good relationship with local government, ISO approved standard and high quality service, as well as the secured access to restricted materials.

## Pharmaceutical Business

The Group acquired 49% share capital of Success Start Holdings Limited ("Success Start") on 15 March 2004. Success Start engages in the research and development, production and sales of medical products through Anxi Medicine-Make Co., Limited Fujian ("Anxi Medicine") 福建省安溪制藥有限公司 and bio-technological medical products through Beijing Xipu Biotechnology Limited ("Beijing Xipu") 北京靈圃環球生物醫藥技術有限公司. The Management remains confident that pharmaceutical industry will be the next high-growth industry in the PRC in the foreseeable future with attractive returns. The Management will treat the investment as a valuable asset and a potential contributor to the Group's business in the future.

During the period under review, Success Start has attained a break-even position from a loss position before. Anxi Medicine has submitted two medical products, Cefmetazole raw material medicine「頭孢米諾原料藥」and Sterilized Power of Injection「無菌粉針」for the approval of the State Food and Drug Administration (SFDA). It is expected that approval for the production of the products as well as the accreditation of the GMP standard will be completed before the first half of next year, which will boost the turnover and profitability of Anxi Medicine.

Beijing Xipu has successfully launched the new product, “Xi Pu Gluco Guard Yi Dao Ying Yan Su”「璽圃牌利唐康膠囊胰島營養素」in the period under review and was well received by diabetic patients. The product has now been launched into major cities and provinces in the PRC such as Guangdong, Liaoning, Jilin, Shandong Province and Beijing city with special sales and promotion programs. It is expected that the sales of Beijing Xipu next year will be substantially increased from the sales of the new product.

## PROSPECT

The Group has achieved both increase in turnover and profit in the first half of this financial year, as a result of its effort on market repositioning, products development, quality assurance and cost control.

The Management recognizes its marketing strength and competitive advantages in the industry by virtue of its long establishment in the industry, highly vertical integrated manufacturing capability, expertise in research, development and design, owning famous brand names and extended overseas sales network and offices. The Group will continue to pursue these competitive advantages with a view to enhancing its customers base and penetrating new market frontier.

The Management also recognizes the immense opportunity and vast potential brought about by the PRC’s accession to the WTO and the Closer Economic Partnership Arrangement between Hong Kong and the PRC. The Group has in the past established sales outlets in major cities in the PRC. With the years of experience in the PRC market and wide sales network, the Management considers that it is the right moment to take the PRC sales to the next phase of expansion.

On the international front, the Management has planned to restructure the overseas sales offices conducive to penetrating into new countries and new market segments.

In response to the requirements of new customers and marketing strategy, the Group has enhanced its capability on research, development and design of new products by entering into partnership with renowned overseas design houses and enhancing the in-house research, development and design capability.

In a bid to strengthen quality control and gain quality recognition, the Group sought ISO 9001 Quality Management System Certification of the clock factory at Shenzhen, the PRC, at the beginning of this year. It is expected that the accreditation of the ISO 9001 certification will be completed by the end of this financial year and this would be an open recognition of the Group’s quality standard.