

Management Discussion and Analysis

BUSINESS REVIEW AND PROSPECTS

The Group's turnover was HK\$70.1 million (2004: HK\$81.0 million) in the year ended 31 March 2005, representing a decrease of 13% over the previous year. Gross profit margin deteriorated to 8% (2004: 13%) partly due to sharp increase in prices of raw materials. Net loss of the Group was HK\$19.6 million (2004: HK\$15.5 million) and loss per share was HK0.41 cents (2004: HK0.34 cents).

Consumer electronics business

The performance of the electronics business of the Group was adversely affected by sudden increase in oil and metal prices during the year ended 31 March 2005. The strong 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 was a negative contribution of HK\$9.1 million (2004: HK\$11.4 million).

A rebound in the electronics business has been observed. The turnover of the electronics business increased almost 300% year-on-year in the three months ended 30 June 2005, and is likely to record very high growth in the following three months judging from the orders in book. Newly developed OEM products have been selling well while ODM sales continue to grow. A significant improvement in the electronics business is expected but fluctuation in raw material prices remains a major risk factor.

Snap off blade cutter business

Similar to the electronics business, the cutter business was also adversely affected by sudden increase in raw material prices during the year ended 31 March 2005. The annual turnover fell 9% to HK\$43.1 million (2004: HK\$47.6 million) mainly due to decrease in sales volume as a result of necessary upward price adjustment reflecting the increase in material and manufacturing cost. The result of the cutter business turned to a negative contribution of HK\$3.1 million from a positive contribution of HK\$2.9 million in the previous year.

In order to improve the performance of the cutter business, the business segment has planned to boost turnover and improve profit margin by adding new models to the existing product mix. A number of new clients, which are major distributors of tools and stationary, have been secured. A moderate growth in turnover and significant improvement in the result of the cutter business are expected in the coming year.

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BUSINESS REVIEW AND PROSPECTS (Continued)

Geographical segment analysis

The Group's client base is quite well diversified in terms of geographical locations. There was a high concentration in the Hong Kong market since sales were classified according to the location of direct clients. Most of the goods sold to our clients in Hong Kong were in fact exported to other countries.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2005, the current and non-current liabilities of the Group amounted to HK\$66.4 million (2004: HK\$64.5 million) and HK\$22.8 million (2004: HK\$10.7 million) respectively. The amount of net current liabilities narrowed to HK\$26.6 million (2004: HK\$29.1 million) mainly due to rescheduling of about HK\$16.0 million of short-term bank borrowings to long-term bank borrowings during the year. The Group recorded an operating cash outflow of HK\$10.8 million (2004: HK\$11.6 million) and the gearing ratio, defined as the percentage of total borrowings to shareholders' funds, rose to 101% (2004: 81%) during the year.

From the management's point of view, the amount of financial resources available to the Group is adequate. The Group may consider disposing of its assets if additional financial resources are required for operation.

INVESTMENT POSITION AND PLANNING

Superior Trump Limited, a wholly owned subsidiary of the Company, entered into a formal agreement with a third party independent of and not connected with the Company or its connected persons (as defined in the Listing Rules) on 26 October 2004 to dispose of all the Group's investment properties situated in Fo Tan Industrial Centre, Shatin, Hong Kong at the consideration of HK\$7,150,000 (the "Disposal") and the transaction was duly completed on 15 December 2004. The Disposal contributed approximately HK\$1.0 million net earnings to the Group in the year ended 31 March 2005.

All of the Group's investment properties were situated in Northern Industrial Complex, Panyu, Guangdong Province, the PRC after the Disposal. These investment properties have been rented out for manufacturing, storage and office purposes and have continued to generate a stable stream of income for the Group.

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INVESTMENT POSITION AND PLANNING (Continued)

The Group has planned to spend about HK\$2.0 million in upgrading plant and machinery to cope with increasing orders in the coming year. Special budget may be approved if new production equipment is required for efficient completion of new OEM orders or when suitable investment opportunities arise. The Group may consider disposing of some investment properties when circumstances require.

The Group does not have any significant investment position in stocks, bonds and other financial derivatives. The Group's exposure to fluctuations in exchange rates is very limited because its assets and liabilities have been well matched in terms of denominations.

SHARE CAPITAL AND OPTIONS

During the year ended 31 March 2005, the Company issued 66,150,000 ordinary shares pursuant to the exercise of share options by certain directors of the Company and employees of the Group. At 31 March 2005, the share capital of the Company comprised only 4,869,957,705 ordinary shares of HK\$0.01 each (the "Share(s)").

Consolidation of shares and adjustment to options

On 23 March 2005, the Company announced a proposal to consolidate 20 issued and un-issued shares of HK\$0.01 each into 1 share of HK\$0.20 each (the "New Share(s)") (the "Consolidation") and to change board lot size for trading on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") from 50,000 Shares to 5,000 New Shares upon the implementation of the Consolidation.

The Consolidation was approved by the shareholders of the Company and became effective on 5 May 2005 (the "Effective Date"). Accordingly, the Company had 243,497,885.25 issued New Shares and 1,256,502,114.75 un-issued New Shares immediately after the Consolidation.

As at the Effective Date, the Company had outstanding options granted under its share option scheme to subscribe for a total of 19,300,000 Shares at the price of HK\$0.01 per Share. Immediately after the Consolidation, the number of shares issuable under each outstanding option granted under the Company's share option scheme was reduced by 95% and the exercise price per share was increased from HK\$0.01 to HK\$0.20. Accordingly, after the Consolidation became effective, the Company had outstanding options to subscribe for a total of 965,000 New Shares at the exercise price of HK\$0.20 per New Share.

Management Discussion and Analysis

SHARE CAPITAL AND OPTIONS (Continued)

Termination of an open offer

The Company announced on 28 January 2005 a proposal to raise fund of not less than HK\$94 million through an open offer (the "Open Offer") and the Company intended to use such proceeds for possible investment. As stated in the Company's announcement dated 18 April 2005, the underwriter of the Open Offer purported to terminate the relevant underwriting agreement and failed to take up the underwritten shares, the Open Offer was therefore terminated. The Company is seeking legal advice on the necessary actions to be taken against the relevant underwriter.

Subscription of new shares

The Company entered into a conditional subscription agreement with a subscriber, a third party independent of and not connected with the Company or its connected persons (as defined in the Listing Rules), on 14 July 2005 for the subscription of 48 million New Shares (representing 19.71% of the Company's issued share capital as at 14 July 2005 and about 16.47% of its share capital as enlarged by the subscription) at a price of HK\$0.26 per New Share under the general mandate granted to the directors of the Company pursuant to the resolutions of the shareholders of the Company passed at its annual general meeting held on 27 August 2004 (the "Subscription").

The Subscription is conditional on the granting of a listing of and permission to deal in the 48 million New Shares by the Listing Committee of the Stock Exchange. An application was made by the Company to the Stock Exchange on 19 July 2005 for the listing of and permission to deal in the 48 million New Shares.

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CHARGES ON THE GROUP'S ASSETS

The Group's properties are situated in Hong Kong and the PRC. At 31 March 2005, all of the Group's properties in Hong Kong (2004: 100%) and approximately 61% (2004: 88%) of the Group's properties in the PRC were pledged to banks to secure credit facilities for the Group.

CONTINGENT LIABILITIES

The Group had a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of approximately HK\$275,000 (2004: HK\$279,000) as at 31 March 2005, as further explained under the heading "Employee benefits" in note 3(o) to the financial statements.

As at 31 March 2005, the Company had provided corporate guarantees to the extent of HK\$55.2 million (2004: HK\$88.1 million) to certain banks in respect of credit facilities granted to its wholly owned subsidiaries.

ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

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

LITIGATION

The Company instituted legal proceedings against ASG Capital Limited and ASG Brokerage Limited (the "Defendants") in 1998 for breach of the placing and underwriting agreement dated 9 December 1997 by failing to fulfill their underwriting obligations thereunder and for the recovery of HK\$40 million being economic loss suffered by the Company together with interest and legal costs. The proceedings are now in pre-trial stage of discovery of documents of the parties and the date of trial has not been fixed. The last action of the parties to the proceedings took place in mid-2005 when solicitors acting for the Company in the legal proceedings served a notice to inspect documents to those acting for the Defendants.

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EMPLOYEES

The Group has approximately 1,430 employees. Most of these employees are working in Northern Industrial Complex, the Group's manufacturing plant in Panyu, Guangdong Province, the PRC. Employees are remunerated on a performance basis with reference to market practices. Share option scheme and incentive schemes are 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, 22 July 2005