

Although producers' attitudes towards investment were adversely affected by the global economic slowdown, manufacturers in the PRC are expected to have eager demand for sophisticated and advanced production equipment for electronic products as local manufacturers strive to increase competitive power and match the international standard and foreign investors enter the market following the PRC's accession to the WTO. The Group believes that when the economy recovers in mid 2002, the business of production equipment for electronic products will generate substantial returns.

In respect of logistics operation, the management will deploy more resources in pursuance of a leading position in the PRC market.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity

As at 30 September 2001, the Group had net current assets of HK\$106 million (31 March 2001: HK\$136 million), mainly comprising prepayments, deposits and other receivables of approximately HK\$2 million (31 March 2001: HK\$5 million), inventories of approximately HK\$65 million (31 March 2001: HK\$50 million) and trade receivables of the approximately HK\$52 million (31 March 2001: HK\$78 million) and current liabilities of approximately HK\$123 million (31 March 2001: HK\$99 million). The current ratio decreased from approximately 2.4 as at 31 March 2001 to approximately 1.8 as at 30 September 2001.

At 30 September 2001, the Group had total assets of approximately HK\$377 million (31 March 2001: HK\$337 million) and total liabilities of approximately HK\$128 million (31 March 2001: HK\$102 million). The gearing ratio calculated as a percentage of long term debt to equity was 0.74% (31 March 2001: 0.05%).

Financial Resources

At 30 September 2001, the Group had floating interest-bearing bank borrowings of approximately HK\$23 million (31 March 2001: HK\$9 million), of which HK\$14 million were denominated in Renminbi and HK\$9 million in Hong Kong dollars. The Group's bank borrowings are all repayable within one year. At 30 September 2001, the Group's bank borrowings were secured by (i) first legal charges on certain of the Group's leasehold land and buildings and investment properties located in Hong Kong; (ii) pledged bank deposits of HK\$5 million; (iii) second legal charges on properties located in Hong Kong of a related company; (iv) a second legal charge on a property located in Hong Kong of a director; (v) deposits of a director amounting to HK\$4.7 million.

As a significant portion of the Group's sales and purchases are denominated in Hong Kong dollars and Renminbi, in view of the stability of exchange rate of Hong Kong dollars and Renminbi, the directors consider that the Group has no significant exposure to foreign exchange fluctuation. During the Period under review, the Group did not use any financial instrument for hedging purposes and the Group did not have any hedging instruments outstanding as at 30 September 2001.

At 30 September 2001, cash and bank balances amounted to 104 million, approximately 13 million are denominated in Renminbi and the majority of the remaining balances are denominated in Hong Kong dollars.

Use of Proceeds of New Issues

Upon the listing on The Stock Exchange of Hong Kong Limited, in October 2000, net proceeds of approximately HK\$81 million was raised. Up to 30 September 2001, the net proceeds have been applied as follows:

- approximately HK\$8.5 million for the joint development programmes with Samsung Techwin and Samjing Tech;
- approximately HK\$5 million for strengthening the Group's product research and development capacity;
- approximately HK\$5 million for the developing and introduction of new production equipment based on lead-free solders and non-ODS solvents;
- approximately HK\$6.5 million was used for the development and introduction of new electronic and digital equipment products;
- approximately HK\$20 million for expanding the Group production facilities.

Net proceeds which have not been applied were placed with licensed financial institutions in Hong Kong.

Contingent Liability

At 30 September 2001, bill discounted with recourse amounted to HK\$1.7 million (31 March 2001: HK\$1.9 million).

Employees

At 30 September 2001, the Group employed approximately 3,500 staff and workers in PRC and approximately 50 staff in the Group's Hong Kong office. The Group's employees are remunerated in accordance with their work performance, experience and prevailing industry practices. The Group also participates in retirement benefits schemes for its staff in PRC and Hong Kong.