FINANCIAL REVIEW

Turnover

The Group's turnover for the year ended 31 March 2003 was HK$453 million, representing an increase of HK$209 million or 86% against HK$244 million last year. The substantial increase in turnover was mainly due to the inception of the Harbour Networks relationship in April 2002 and the growth in consumer electronics appliances. Sales from telecommunication products increased by 195% to HK$206 million as we secured and delivered huge orders for the manufacture of networking products for Harbour Networks. Sales from consumer electronics appliances increased by 68% to HK$214 million mainly due to an increase in sales of pet training devices and home appliances. During the year, the Group strategically shifted resources from contract processing units to turnkey units which normally generate more profit contribution for the Group. As a result, sales from contract processing units for the year decreased by 65% to HK$12 million from HK$35 million last year.

Profit Attributable to Shareholders

Gross profit for the year amounted to HK$72 million representing an increase of 17% over last year due to the increase in sales of networking products and consumer electronics appliances.

The gross profit margin recorded a decline from 25% last year to 16% this year principally due to a change of product mix during the year:

(1) *Decrease in sales of contract processing units*

As a result of the Group's strategic shift of resources, sales from contract processing units decreased substantially by 65% this year. Under contract processing arrangement, raw materials are consigned by customers and so turnover for contract processing units is much lower than that for turnkey units. With a lower turnover base, gross profit margin of contract processing units is normally much higher than that of turnkey units.

(2) *Inception of networking products for Harbour Networks*

i. Networking products manufactured by the Group are mainly routers and IP switches which have a very high material cost, as compared to the Group's other products, which in turn will result in a higher turnover. Due to the higher turnover base, the gross profit margin of networking products is generally much lower than that of the Group's other products.

ii. Start-up costs for the Xi Xiang plant of the Group, which commenced operation during the year, has lowered the overall gross profit margin of networking products this year as production was ramped up.

Selling and Administrative expenses comprise selling and distribution expenses, general and administrative expenses and research and development costs. Selling and Administrative expenses increased to HK$36 million from HK$28 million last year. The increase was mainly due to the increase in marketing expenses and staff costs as the Group employed more staff, including research and development professional and sales staff, to strengthen the product development and expand new markets respectively. However, the ratio of Selling and Administrative expenses to turnover decreased from 12% last year to 8% this year.

The finance costs comprise mainly trust receipts interest and machinery loan interest. Finance costs for the year increased from HK$0.9 million last year to HK$2.5 million this year mainly due to an increase in trust receipts as more raw materials were purchased in line with the higher production volume of networking products.

Taxation expenses decreased from HK$6.1 million last year to HK$4.5 million this year which was due to the enterprise income tax (EIT) exemption enjoyed by the subsidiary located in the Xi Xiang plant of the Group which has commenced operation during the year and solely manufactures networking products for Harbour Networks.

The Group reported a profit attributable to shareholders of HK$39 million for the year, representing an increase of HK$12 million or 43% as compared to HK$27 million last year. Basic earnings per share were HK22 cents, compared to HK18 cents recorded in previous year.

GAIN ON DISPOSAL OF INVESTMENTS

In view of the Group's strategy to focus on its core business of electronic manufacturing, the Group has decided to discontinue its research and development of energy-saving lighting products carried by S&V Lighting Limited ("SVLL") which was 86% owned by the Company at the time of disposal. On 23 August 2002, Suga Electronics Limited, a wholly-owned subsidiary, disposed of its entire equity interest in SVLL to Mr. Ng Chi Ho, Mr. Fung Chi Leung, Mark and Mr. Ma Fung On, directors and beneficial shareholders of the Company at a total consideration of HK$1,000. The Group recorded approximately HK$9 million gain on the disposal of SVLL.

At the time of disposal, SVLL recorded a negative shareholders' equity of approximately HK$9.6 million, and had a loan due to the Group of HK$14 million. As SVLL's negative shareholders' equity was previously consolidated into the Group's accounts, the disposal resulted in an elimination of the negative shareholders' equity which in turn brought a gain of approximately HK$9 million to the Group.

As a pre-condition for the disposal of SVLL, SVLL repaid the loan of HK$14 million due to the Group. As a result, the Group recorded approximately HK$9 million gain on the disposal of SVLL while in fact received HK$14 million cash from the disposal transaction.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2003, the net current assets achieved a level of HK$91 million representing an increase of 60% over previous year. Cash and bank balances were HK$32 million as compared to HK$19 million as at 31 March 2002. The current ratio at balance sheet date remained at a healthy 1.78 times as compared to 1.95 times last year.

The Group's net bank borrowings (after deducting cash and bank balances) were HK$24 million compared to HK$11 million last year. The gearing ratio, calculated based on the net borrowings to shareholders' equity, at balance sheet date was 18.2% as compared to 12.5% last year. The increase in bank borrowing level was in line with the injection of and substantial growth of networking business during the year. The bank borrowings mainly comprised unsecured bank loans, trust receipts loans and finance lease and were mainly denominated in Hong Kong dollars and US dollars and as such the Group has no significant exposure to foreign exchange fluctuations. Certain inventories were held under trust receipts bank loan arrangements. The Board considers that the gearing was maintained at a prudent level.

Unutilized banking facilities of the Group as at 31 March 2003 were HK$38 million. The Board considers that the Group has the ability to obtain additional banking facilities and provide adequate funding for its operational and capital expenditure requirements.

FOREIGN CURRENCIES AND TREASURY POLICY

Most of the Group's business transactions, assets and liabilities are denominated in Hong Kong dollars, US dollars and Renminbi. As such, the fluctuation of foreign currencies did not have a significant impact on the performance of the Group. The Group shall continue to monitor closely its foreign currency exposure and requirements and to arrange for hedging facilities when necessary.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liability at the balance sheet date.

EMPLOYEES

As at 31 March 2003, the Group had approximately 1,200 employees of which 60 staff were based in Hong Kong while the rest were in the PRC. Competitive remuneration packages are structured to commensurate our employees with individual job duties, qualification, performance and years of experience. In addition to basic salaries and Mandatory Provident Fund, the Group offers staff benefits including medical schemes, educational sponsorship subsidies, discretionary performance bonus and share options. A share option scheme was adopted on 17 September 2002 which is valid and effective for a period of 10 years since the date of adoption.