

MANAGEMENT DISCUSSION AND ANALYSIS

Financial status

Results for the period

During the first half of this financial year, the turnover of the Group amounted to HK\$111 million, representing a 43% drop from the same period last year. Net profit attributable to shareholders was HK\$22 million for the six months ended 30 June 2001, compared with a net profit of HK\$34 million a year ago.

Since the worldwide economy is continually slowing down especially USA and Europe, the overall market for household electrical appliances in Asia was weak during the period. This is reflected in the analysis in note 2 of geographical segment information. The overall business performance of the Group was unavoidably affected. However, in spite of the keen competitions in the industry with the effort to strengthen the market in Australia and PRC, about 84% of the Group's turnover and 78% of the profit from operating activities were derived in PRC from the trading of Group's products, the overall gross profit margin was 16% better than the corresponding period in 2000.

The directors resolved not to pay an interim dividend to shareholders for the six months ended 30 June 2001.

Liquidity and financial resources

The Group has consistently maintained a net cash position. As at 30 June 2001, the Group had cash and bank balances and bank deposits of HK\$44,978,000 (31 December 2000: HK\$76,936,000). The Group generally finances its operations with internally generated cash flow and other banking facilities by its principal bankers in Hong Kong and PRC.

As at 30 June 2001, the gearing ratio (total debts/total assets of the Group) was 0.44 (31 December 2000: 0.44).

Exchange rate exposure

Over ninety percent of the Group's cash and cash equivalents were denominated in Hong Kong dollars or RMB . Borrowings of the Group were also made in these currencies to avoid the fluctuation in exchange rates. As the exchange rates of RMB against Hong Kong dollar were relatively stable during the period, the Group was not exposed to any significant risk in exchange rate.

Charges on Group assets

As at 30 June 2001, the Group's banking facilities were secured by the legal charge on a leasehold property situated in Hong Kong owned by the Group.

Employee

As at 30 June 2001, the total number of employees was 1098 (31 December 2000: 1019). The Group's remuneration policy is linked to efficiency and remained responsive to market trends. The employee's salary is determined based on the results of the assessments of their level of responsibility, skills, strengths and performance.

The Group also encourages its employees to enroll self-training courses. During the interim period, the Company granted share option to an eligible employee to acquire a total of 2,000,000 shares of HK\$0.10 each in the capital of the Company at an exercise price of HK\$0.80 per share. The share option had been exercised on 7 May 2001. As at 30 June 2001, there was no outstanding share options granted under the Company's share option scheme.

Contingent liabilities and capital structure

Corporate guarantee in respect of banking facilities of a jointly-controlled entity was executed by the Company to the extent of HK\$12 million (31 December 2000: Nil) in aggregate. As at the balance sheet date, the banking facilities were not utilized. The Group did not have any other significant contingent liabilities at 30 June 2001.

All the Company's shares are ordinary shares and the Group's borrowings are secured bank loans which are repayable within one year as at the balance sheet date.

Use of proceeds

Since the listing of the Company's shares on the Stock Exchange on 22 December 2000, the Group has used approximately HK\$19 million for the procurement of production machinery and equipment and the establishment of new production facilities, HK\$3.2 million for the research and development of new products and HK\$7.5 million for the acquisition of production machinery and equipment to expand the Group's production capacity. The directors are of the opinion that the remaining proceeds will be applied in the later periods to their intended uses as set out in the Company's prospectus dated 12 December 2000.

Business review and prospects

Review

Despite the slowdown in the global economy in the first half of 2001, China's economy has still been growing at a rate of 7.9%. With the series of important State measures including a positive financial policy, the development of the Western part of China and the stimulation of internal demand, the Directors believe that the domestic economy will continue to develop at a speedy and healthy pace in the second half of the 2001. The group continues to forge ahead with the development of new product lines. At the Ironware Department over 580 sets of moulds were designed and produced during the first half of the year. The newly developed In-Mould Decoration line saw over 40 types having been shaped. Meanwhile, over at Aluminium Wiredrawing, monthly production volume surpassed the 10,000 sets mark – a clear indication of demand over supply. The production capacity of the Satellite Television Receiver, which is mainly exported to Australia and Indonesia, has reached 15,000 per month; and Optic Fiber, the group's newly acquired production line, is running smoothly, turning a monthly sales volume of over HK\$7 million.

Expand the production line of Aluminum Wiredrawing products and the production capacity of mould manufacturing. The group's television panels, hi-fi control panels, amplifier speakers and knobs have become first choice for several well-known brands. This is clear indication of having a strong market competitive power.

Our Digital Satellite Television Receiver facilities come in a high, medium and lower-end pricing structure so as to support various consumer requirements. The Digital Satellite Television Receiver, known for its multi-functional capacity and user-friendliness, is now marketed in Australia and various South East Asian regions. The development of the “Set-Top” box has reached trial production stage and is expected to be mass-produced, with lot sizes, by the end of the year.

The past years have seen the Group making headway in its bid to become technologically stronger. These efforts have paid dividends as technologically as well as by production capacity of our mainstream products have now attained new heights. Apart from risk-control, this foresight and achievement has also laid a solid foundation for future growth and expansion.

Prospect

It is now a fact that China would enter the WTO. With globalization accelerating as never before, China’s machinery for development in information technology has already been set in motion. Major efforts in promoting the nation’s domestic economy and the application of information technology in state and business are also in place. Against this optimistic backdrop, the Group is focused on the future and is set to meet any business opportunity and challenge with confidence.

The Group has adopted several measures to improve the competitiveness of its core products. These are as follows:

- To monitor global advanced technology with a view to consolidating its existing specialty products. These include metal components and parts for electronics accessories. This reinforces technical improvements and new product development, thereby ensuring competitiveness through technology, quality and price. An on-going strengthening of its quality products, including In-Mould Decoration and Aluminum Wiredrawing ensures its market-leader position in the industry.

- The Group is geared to develop its own line of technical products to coincide with its overall development strategy. For example, our existing Digital Satellite Television Receiver is a cut above the rest, enabling us to increase export volume and to establish ourselves with international brand names. Digital and Internet products are also to be developed.
- So as to actively participate in China's infrastructure development, the Group will increase the production scale of its optic fiber cables; at the same time, taking into consideration quality so as to enhance its competitive edge in the marketplace.

The amount invested in machinery in 2001 was approximately HK\$7.5 million. The Group has recently added an automatic screen-printing press and an injection moulding machine to its production line. These state-of-the-art equipment with their speed and capacity for high precision, will greatly enhance productivity, quality and inadvertently ensure the Group's prime position in the world market.

A new production line of optic fibre will be purchased and installed by October 2001 and over the next year an additional one will also be installed. This move is in line with the Group's aims to becoming one of the top ten domestic producers of optic fibers (by capacity) within three years.

With the growth of information technology and the comprehensive expansion of the cable television network, the demand for optic fibers has been tremendous. However, the inherent outcome is severe competition. In this light, it is necessary to continue enlarging the Group's production scale so as to maintain a production capacity of 500,000km per year. The Pearl River Delta is a renowned production base for household electrical appliances. With an aim to extend its client base, the Group is committed to provide better and faster services to cope with its future growth. The Group believes that our Tongda shenzhen factory would help enhance its market share and turn a sizeable profit for the Group upon its inauguration at the end of this year.