

Management Discussion and Analysis

BUSINESS AND OPERATIONAL REVIEW

For the year ended 31 December 2000, the Group recorded a turnover of approximately HK\$460 million, representing a decrease of approximately 1.3 per cent. as compared with approximately HK\$466 million of the corresponding year in 1999.



Electronic calculators and organisers

During the year under review, the Group continued to focus on the sales of electronic calculators and organizers under the branded customers located throughout Japan, Europe and the United States of America. The sales of electronic calculators and organisers decreased to approximately HK\$237 million and approximately HK\$103 million respectively, represented approximately 52 per cent. and approximately 22 per cent. respectively of the turnover of the Group. The decrease was mainly attributable to the increase in prices of electronic parts and components and accordingly, delivery lead-time is extended. This dampens business growth and erodes profitability.



The turnover derived from the electronic calculators manufactured and sold under the Group's own brandnames "KARCE" and "COCO & JAN" recorded a significant increase by approximately 10 per cent. during the year under review. Such products are marketed to overseas markets including the Middle East, Africa and other South East Asian countries. The Group has identified a number of established overseas distributors with the objective to promote the market awareness of the Group's own brandname products.

To benefit from new market opportunities, the Group will maintain its strategy of promoting jointly with its overseas distributors to further stimulate the demand of the Group's products under its own brandname.



Conductive silicon rubber keypads

For the year ended 31 December 2000, the turnover of conductive silicon rubber keypads decreased to approximately HK\$49 million (1999 : approximately HK\$57 million), representing approximately 11 per cent. of the turnover of the Group. During the year under review, the business strategy addressed to consolidate its key client base and serve a broad range of well known customers in Japan and the PRC. The effort was rewarded as the contribution to operating profit amounted to approximately HK\$10 million.

Conductive silicon rubber keypads are crucial components in the production of electronic calculators, electronic organizers, mobile phones and audio visual products. The Group's

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conductive silicon rubber keypads are mainly made for use in electronic calculators, databanks, electronic organizers, mobile phones and remote controls.

Demand of electronic calculators, electronic organizers and mobile phones from the United States and the European Union is expected to continue to increase, and exports of parts and components to the PRC is expected to be sustained on the back of steady outward processing trade. The Directors are of the view that the market for conductive silicon rubber keypads will remain fairly stable in 2001.



Printed Circuit Boards ("PCB")



For the year ended 31 December 2000, the turnover of PCB increased significantly to approximately HK\$70 million (1999 : approximately HK\$37 million), representing approximately 15 per cent. of the turnover of the Group. During the year under review, the Group reengineered its sales mix and achieved a higher profits margin by increasing the complexity of PCB from single layer or double layers to multi-layers. In order to meet the increased orders, the Group assigned some complexity work to outside subcontractors and the

subcontracting fees amounted to approximately HK\$10 million for the year ended 31 December 2000. As a result, this eroded the profit contribution to PCB and recorded a negative contribution of approximately HK\$6 million.

The management attributed this achievement to the Group's long committed determination and continuous effort on improving product quality and operational efficiency. During the year under review, Dongguan Tai Shan Electronics Co., Ltd. ("Dongguan Tai Shan"), a 85 per cent. owned subsidiary of the Company, has completed the ISO9002 audit and was successfully awarded the ISO9002 certificate in July 2000. The Board believes that Dongguan Tai Shan is also dedicated to increase the production capacity of the existing facilities.

In order to sustain growth momentum, the Directors consider to re-engineer the Group's production processes as to increase cost efficiency, and to reposition the Group for the future. Along with the substantiate growth in PCB business, the Group will consider to spend approximately HK\$5 million to acquire machineries in the coming year and the Directors believe that the future performance and prospects of the PCB business are optimistic.

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The overall gross profit margin of the Group slightly decreased by approximately 1.5 per cent. to approximately 14 per cent. (1999 : 15.5 per cent.).

The Directors maintain a strict and prudent stock control system and make provision for obsolete, excessive and damaged stocks whenever they consider necessary. During the year under review, certain types of raw materials and finished goods amounted to approximately HK\$5,793,000 were held over one year by the Group. As a prudence's sake, the Directors made a full provision of approximately HK\$5,793,000 for these stocks.

As a result, consolidated profit attributable to shareholders for the year ended 31 December 2000 amounted to approximately HK\$1,698,000, representing a decrease of approximately 89 per cent. over the corresponding year in 1999.

Shareholders' equity increased to approximately HK\$298 million as at 31 December 2000 from approximately HK\$244 million as at 31 December 1999.

CAPITAL STRUCTURE

The Group raised approximately HK\$39 million net of related expenses from the issue of 90 million new shares of HK\$0.10 each in the capital of the Company at a price of HK\$0.45 per share to independent professional and institutional investors in August 2000.

As at 31 December 2000, the consolidated shareholders' equity of the Group was HK\$298 million, representing a growth of approximately 22.5 per cent. over the corresponding year in 1999. The short term and long term interest bearing debts to shareholders' equity was approximately 15 per cent. (1999: approximately 29%) as at 31 December 2000.

LIQUIDITY AND FINANCIAL RESOURCES

	2000 HK\$'000	1999 HK\$'000
Net cash inflow from operating activities	<u>40,007</u>	<u>34,602</u>
Net cash (outflow) from:		
Returns on investments and servicing of finance	(5,542)	(12,452)
Taxation paid	(1,024)	(4,823)
Investing activities	<u>(14,027)</u>	<u>(77,945)</u>
	<u>(20,593)</u>	<u>(95,220)</u>
Net cash inflow from financing activities	<u>29,949</u>	<u>34,840</u>
Cash and cash equivalents at end of year	<u>44,606</u>	<u>(4,757)</u>

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The net cash inflow from operating activities was approximately HK\$40 million in 2000, compared with an inflow of approximately HK\$34 million in 1999. It mainly reflected the profit from ordinary activities and increase in the level of trade and other payables. The net cash inflow from financing activities amounted to approximately HK\$30 million in 2000, reflecting primarily the net proceeds of a private placing to independent professional and institutional investors of approximately HK\$39 million.

The Group generally finances its operation by internally generated cashflow and banking facilities provided by its bankers.

Prudent financial management and selective investment criteria have enabled us to maintain a strong financial position. As at 31 December 2000, the Group has cash in hand of approximately HK\$46 million (1999 : HK\$15 million).

The Group currently has aggregated banking facilities of approximately HK\$160 million (1999: approximately HK\$111 million). The trade and overdraft banking facilities of approximately HK\$102 million (1999: approximately HK\$74 million) in Hong Kong and the term loan banking facilities of approximately HK\$58 million (1999: approximately HK\$37 million) in the PRC. All the term loan banking facilities in the PRC are denominated in Renminbi.

As at 31 December 2000, total indebtedness including bank borrowings and obligations under finance leases and hire purchase contracts amounted to approximately HK\$46 million (1999 : approximately HK\$70 million).

The total indebtedness as at 31 December 2000 represented approximately 15 per cent. of the total shareholders' equity (1999: approximately 29%).

The Directors considered that the Group shall have enough and strong financial resources to meet its future expansion plan and working capital requirement after a due consideration of the net cash position and the availability of the existing banking facilities.

APPLICATION FOR THE PROCEEDS OF PRIVATE PLACEMENT

The Group raised approximately HK\$39 million net of related expenses from the issue of 90 million new shares of HK\$0.10 each in the capital of the Company at a price of HK\$0.45 per share to independent professional and institutional investors in August 2000.

The net proceeds from the private placing is subsequently applied up to the date of this report as follows:-

- approximately HK\$3 million for developing new products including Personal Digital Assistants ("PDA"), web cameras and telecommunication products;



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- approximately HK\$5 million for the promotion of the electronic organisers and other electrical products; and
- approximately HK\$15 million as working capital of the Group.



The remaining balance of approximately HK\$16 million from the private placing are now placed on short term deposits with banks and will be utilized for developing new products including PDA and telecommunication products in the coming year. The Directors believe that the proceeds of the private placing will be utilized as planned and in the best interests of the Group and its shareholders taken as a whole.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2000, the Group employed approximately 5,350 full time employees, of which 50 were based in Hong Kong and 5,300 were based in the PRC. The Group remunerates its employees on the basis of industry's practice and the performance of the individual employee.