

MANAGEMENT DISCUSSION AND ANALYSIS

Review of operations and financial performance

The Group is principally engaged in design, manufacture and sale of calculators mainly under its own brand names, "KADIO" and "TAKSUN", and other electronic products. At present, the Group produces more than 150 types of calculators including pocket, desktop and other featured calculators. The other electronic products produced by the Group include world time calendars, digital clocks, brick games sets and euro-converters.

The Group had sustained significant growth in its turnover and net profit from ordinary activities attributable to shareholders during the six months ended 30 June 2001 (the "Period"). During the Period, the Group's turnover was approximately HK\$210.9 million and net profit from ordinary activities attributable to shareholders was approximately HK\$24.9 million, representing their respective increases of approximately 59.8% and 63.9% over the same period of last year.

Liquidity and financial resources

On 18 September 2001, the Company's shares were listed on the Stock Exchange. The Group raised approximately HK\$47 million, net of related expenses, from the issue of 120 million new ordinary shares of the Company. The listing of the Company's shares on the Stock Exchange enlarges the shareholders base of the Company and provides additional funds for the Group's further expansion. During the Period, the Group generally financed its operations with internally generated resources and banking facilities provided by its principal bankers in Hong Kong and the PRC. At 30 June 2001, the Group had interest-bearing bank borrowings of approximately HK\$17.0 million (31 December 2000: HK\$16.8 million), of which approximately HK\$12.5 million was fixed-interest bearing and denominated in Renminbi with maturity within one year and the remainder was floating-interest bearing and denominated in Hong Kong dollars. Approximately 93% of the Group's bank borrowings denominated in Hong Kong dollars as at 30 June 2001 had maturity beyond one year. At 30 June 2001, the Group's banking facilities were secured by (i) fixed charges on the leasehold land and buildings of the Group in Hong Kong; (ii) corporate guarantees given by certain subsidiaries of the Company; (iii) a fixed deposit owned by a Director; and (iv) joint and several personal guarantees given by certain Directors. The Group has obtained a consent from its banker that the fixed deposit owned by a Director and the joint and several personal guarantees given by certain Directors will be released and replaced by corporate guarantees from the Company and/or other members of the Group subsequent to the listing of the Company's shares on the Stock Exchange.

At 30 June 2001, the Group's bank borrowings were denominated in Renminbi or Hong Kong dollars. The Group's sales and purchases are either denominated in Renminbi, Hong Kong and US dollars. Accordingly, the Directors consider that the Group has no significant exposure to foreign exchange fluctuations in view of the stability of the exchange rates of Renminbi, Hong Kong and US dollars. During the Period, the Group did not use any financial instrument for hedging purposes and the Group did not have any hedging instrument outstanding as at 30 June 2001.

At 30 June 2001, the Group had current assets of approximately HK\$115.6 million (31 December 2000: HK\$86.8 million) and current liabilities of approximately HK\$91.7 million (31 December 2000: HK\$75.7 million). The Group's current ratio had improved from approximately 1.1 as at 31 December 2000 to approximately 1.3 as at 30 June 2001. The Group had total assets of approximately HK\$168.6 million (31 December 2000: HK\$130.8 million) and total liabilities of approximately HK\$95.6 million (31 December 2000: HK\$79.7 million), representing a gearing ratio of approximately 56.7% as at 30 June 2001 as compared with approximately 60.9% as at 31 December 2000. The improvements in current ratio and gearing ratio were mainly attributable to the net profit generated during the Period.

Prospects

The listing of the Company's shares on the Stock Exchange enhances the Group's corporate profile and provides additional funds for the Group's future growth and development. In particular, the Group has intended to invest a major portion of the net proceeds from listing in (i) expanding production capacity of existing products; (ii) developing production capacity of liquid crystal displays; (iii) developing new products and improving production processes and methods; and (iv) expanding sales network in existing and new markets. Together with the in-depth knowledge and extensive experience of the Group's management in the electronics industry and the expanding sales network, the Group is well positioned to secure its existing market position and capture the opportunities from new and emerging markets.

Number and remuneration of employees

At 30 June 2001, the Group had approximately 4,500 staff and workers for its operations in Hong Kong and the PRC. 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 Hong Kong and the PRC. Since 18 September 2001, the Group has adopted a share option scheme of which the Board may, at its discretion, grant options to employees of the Group. No options have been granted up to the date of this interim report.