

BUSINESS REVIEW

The economic environment in Hong Kong has not recovered lately and is facing an unexperienced slowdown. Unemployment rate continues to rise and is expected to remain at a high level for a period. With the continued decrease in the consumer confidence, business corporations in Hong Kong are undergoing a deteriorated economy in terms of business opportunities. The Group has tried every measure, including refocusing its business strategy, product portfolio and production capacity, to sustain its performance but the performance of the Group has been inevitably affected by the current arduous economic situation.

Review of Results and Operation

In face of a difficult operating environment in the electronics industry, the Group recorded a consolidated turnover of HK\$661.6 million, slipped by about 39.5% as compared with last year. The Group's profit before tax for the year was HK\$8.0 million, down by 93%.

During the period under review, out of the major products of the Group, electronic calculators accounted for 52% of the total turnover of the Group. Its turnover stood at HK\$346.6 million. Due to the Group's aggressive pricing strategy to increase competitiveness and market share, both the volume and price have been significantly reduced. Presently, the Group is one of the largest manufacturers of electronic calculators in the PRC.

The sale of quartz crystals shared 14% of the Group's total turnover. Currently, the Group is one of the largest manufacturers of quartz crystals in the South East Asia. The Group has dominant market share on the manufacture and sale of quartz crystals, which ranged from offering low frequency to high frequency quartz crystals. With its investment in the quartz manufacturing technology coming to a fruition phase soon, the Group is planning to launch a series of high-end products such as personal data assistants ("PDAs") which will further widen the product mix of the Group.

The market for liquid crystal displays ("LCD") remained competitive but the Group was able to maintain a stable turnover for this electronics component. LCD contributed about 9.6% to the total turnover of the Group. The Group has invested in building new production facilities for expanding its production in the LCD line and will increase its capacity to meet the growing global demand for electronic consumer products which use LCD as components. The Group is currently ranked the third largest LCD manufacturer in China.

The Group is also active and gradually enlarging its presence in the North West China. The Group has long been developing businesses in these areas through its setting up sales network for penetrating the markets there, in particular, Xian, Chengdu etc. The Group's market share for electronic calculators and other quartz products in the North West China is over 30%. As a pioneer in developing this part of China, the Group tends to benefit from the infinite opportunities offered from the opening up of such area.

BUSINESS REVIEW *(continued)*

Review of Results and Operation *(continued)*

Confronted with even more unfavourable operating environment in the second half of the year, the Group encountered significant decline in the operating profit since the interim period. In order to maintain the market share and to remain competitive, the Group has taken the step to substantially lower the price and gross profit of some aged models, resulting in the overall drop in turnover, HK\$234.6 million in the second half of the year compared with HK\$427.0 million in the first half of the year, and operating profit. Despite the decline in the turnover, the Group was able to sustain its pre-eminent market standing as one of the major local electronic manufacturers. The management foresees better prospect and results in next year as the Group is aiming at producing high end products. On the other hand, the operating environment was disadvantageous to customers who in turn tend to lengthen their payments. The Group has underestimated the effect of the slowdown of economy and, for the sake of prudence, bad and doubtful debts provisions of HK\$12.6 million were made for the year. Moreover, in the second half of this year, a revaluation deficit on fixed assets of HK\$7.4 million has been charged, which further lowered the profit for the Group. Since such revaluation was only carried out at year end, the Group did not carry out any estimation of the valuation of its fixed assets during the interim period.

Capital investment

During the year, the Group has paid up the remaining part of the capital contribution, amounting to US\$1 million for its investment in Taiwan Communication (Fujian) Company Limited ("Taiwan Communication"). The joint venture had a total capital injection of US\$2 million as at 30 September 2001 and is engaged in the manufacture and trading of telecommunications products such as fax machines and IP telephony products.

The Group has also paid up the remaining investment contribution in its long term investments. Accordingly, as at 30 September 2001, the Group owned 17,628 common shares of Angstrom Joint Stock Company ("Angstrom") and 17,628 common shares of Angstrom-M Joint Stock Company. Angstrom is a leading Russian producer of integrated circuits. The Group considers the acquisition as long-term investments, as well as a means to enable it to secure a stable supply of integrated circuits and to reduce the lead-time in product delivery, helping the Group to strengthen its competitive position as a leading ICs trader. The Group and Angstrom have undertaken preliminary discussions to explore the possibility of establishing new semi-conductor facilities in China.

Liquidity and financial resources

The Group generally finances its operations with internally generated cashflow and banking facilities provided by its principal bankers in both Hong Kong and the PRC. Such facilities were secured by fixed deposits amounted to approximately HK\$11,270,000, certain properties held by the Group and the corporate guarantees of certain related companies and the Company. The financial position of the Group remains healthy for the year under review. As at 30 September 2001, the total shareholders' equity of the Group was approximately HK\$806.9 million, an increase of 2.1% over that as at 30 September 2000. The Group's cash and bank balances as at 30 September 2001 stood at approximately HK\$74.0 million, with the current ratio of about 2.1 times. The bank borrowings and trust receipt loans of the Group amounted to HK\$123.6 million, a decrement of 22.2% as compared to that as at 30 September 2000. The decrement was mainly due to the decrease in secured short term bank loans of HK\$31.9 million and in trust receipt loans of HK\$6.1 million. The bank loans were denominated in Renminbi. The Group's gearing ratio, which was computed by dividing the current liabilities and long term debt by shareholders' equity, has lowered from 41.4% as at 30 September 2000 to 36.4% as at 30 September 2001. Borrowings are closely monitored by the Group to maintain gearing at a reasonable level.

BUSINESS REVIEW *(continued)*

Capital structure

During the year, the Company repurchased a total of 230,000 ordinary shares of HK\$0.10 each of the Company on The Stock Exchange of Hong Kong Limited, all of which were cancelled. The repurchases of the Company's shares during the year were effected by the directors, pursuant to the mandate from shareholders, with a view to benefiting shareholders as a whole by enhancing the net asset value and earnings per share of the Company. (Please refer to Note 24 to the Financial Statements for details).

The conversion of US\$0.6 million convertible bonds of the Company into ordinary shares of the Company, netted off the above repurchases, have additionally raised the issued share capital of the Company to HK\$101,207,934 as at 30 September 2001. Subsequent to the balance sheet date and up to the date of this report, the Company has also made redemptions on a total sum of US\$3.7 million bonds from the bondholders which resulted in the balance of the convertible bonds reduced to US\$4 million at the date of this report.

As at 30 September 2001, the number of share options outstanding remained the same as that as at 30 September 2000.

Pledge of assets

Certain leasehold land and buildings and time deposits of the Group, together with the corporate guarantees of certain related companies and the Company, are used to secure banking facilities of the Group. As at 30 September 2001, such facilities were utilised to the extent of approximately HK\$123.6 million.

Application of proceeds of share offer

During the year and up to the date of this report, out of the net proceeds of about HK\$270 million raised from the share offer in September 1999, a remaining balance of about HK\$137.3 million of the net proceeds is intended to be applied to the investment in Taiwan Communication.

The actual and intended applications of the net proceeds of the share offer were in line with the plans set out in the prospectus of the Company dated 25 August 1999. In particular, the plans for expanding and upgrading of LCDs and quartz crystal production capacity, the acquisition of Angstrom and the expansion of the Group's market research and product development division have been completed as planned.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2001, the Group has approximately 13,000 full time management, administrative and production staff in the PRC and in Hong Kong. The Group has a share option scheme and offers rent-free quarters to its employees in the PRC. The employees' remuneration, promotion and salary increment are assessed based on their work performance, work and professional experiences and the prevailing industry practice. Following the adoption of the Mandatory Provident Fund ("MPF") Scheme in December 2000, the Group's directors and employees in Hong Kong joined the MPF Scheme.

PROSPECTS

Looking ahead, the design, manufacture and sale of a wide range of electronic and related components and parts (comprising quartz crystals, LCDs, and watch movements) and consumer electronic products (comprising electronic calculators and electronic clocks and watches) will remain the core businesses of the Group in the future.

PROSPECTS *(continued)*

The Group has revived the product profile from lower-end to mid-to-high-end products. New products such as double-line display and scientific calculators for secondary schools have been launched subsequently after year end. Positive response was reviewed from their sales and sales orders in the past few months. Also, the Group has introduced two new brand names, "Kenko" and "Gavao", into the market which will help the Group to shift from an ODM-based to a brand-driven mode. These two brand names were both awarded the "Most Satisfied Product" by the Fujian Province's Endusers' Association. As the Euro currency has been adopted, the introduction of the Euro-conversion calculators was a success, which helped the Group to further build its presence in Europe.

Besides, the production of PDAs had its first launch in the second half of the year, with the PRC as the line's primary market and the business executives and professionals as the end-users. The production of PDAs and the new line of electronic dictionary will bring diversity and a new revenue stream to the Group since the products are positioned as higher margin products. The management anticipates favourable performance upon such development.

The investment in Angstrom has been fully completed and such acquisition will cement the Group's relationship with such major ICs producer in order to ensure a stable supply. The investment in Taiwan Communication will be carried out as planned. With the formation of such alliance, the Group can save substantial cost in terms of research and development.

The Group foresees ongoing favourable market response to its production line of high-frequency quartz crystals, due to its wide application in different kinds of telecommunications devices. The Group hopes to achieve better profits by maximising such production capacity.

New capital investment and expansion into the LCD production line in the coming year will further enhance the Group's LCD production capability and position the Group as the largest LCD manufacturer in China.

The management looks forward to benefiting from the opening up of untapped markets on the mainland following China's recent accession to the WTO and the improvements of living standards in the western and northern provinces resulting from the state's "Go West" policy. The Group has long been developing its businesses in the North West China as its strategy is to establish strategic sales network there for penetrating the markets.

Given the healthy financial position of the Group, the Board is optimistic about the business prospects and the long-term future of the Group. The Group will strive to maintain a stable profit growth and to leverage the available opportunities in order to maximize the returns for our shareholders.

APPRECIATION

On behalf of the Board, I would like to express my sincere gratitude to our shareholders, fellow directors, staff, customers, suppliers and business associates for their continuous support. We look forward to a better set of results in the year ahead.

By Order of the Board
Wong Choi Kam
Chairman

Hong Kong, 28 January 2002