

MANAGEMENT DISCUSSION AND ANALYSIS



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BUSINESS REVIEW

The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 18 September 2001. The Group is principally engaged in the manufacture and sale of electronic products. It owns two brand names, KADIO and TAKSUN.

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 year, the Group generally financed its operations with internally generated resources and banking facilities provided by its principal bankers in Hong Kong and the People's Republic of China (the "PRC"). At 31 December 2001, the Group had interest-bearing bank borrowings of approximately HK\$19.0 million (31 December 2000: HK\$16.8 million), of which approximately HK\$14.0 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. All of the Group's bank borrowings denominated in Hong Kong dollars as at 31 December 2001 had maturity beyond one year. At 31 December 2001, the Group's banking facilities were secured by (i) first legal charges on the leasehold land and buildings of the Group in Hong Kong; and (ii) corporate guarantees given by the Company and certain subsidiaries of the Company.

At 31 December 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 year, the Group did not use any financial instrument for hedging purposes and the Group did not have any hedging instrument outstanding as at 31 December 2001.

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At 31 December 2001, the Group had current assets of approximately HK\$156.5 million (31 December 2000: HK\$86.8 million) and current liabilities of approximately HK\$95.0 million (31 December 2000: HK\$75.7 million). The Group's current ratio had improved from approximately 1.1 times as at 31 December 2000 to approximately 1.6 times as at 31 December 2001. The Group had total assets of approximately HK\$243.1 million (31 December 2000: HK\$130.8 million) and total liabilities of approximately HK\$99.3 million (31 December 2000: HK\$79.7 million), representing a gearing ratio of approximately 40.8% as at 31 December 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 proceeds of fund raised from the issue of new shares at the time of the Company's listing on the Stock Exchange on 18 September 2001 (the "Share Offer") and the net profit generated during the year.

PRODUCTS DEVELOPMENT

The Group produces more than 150 types of calculators under the four categories including pocket calculators, desktop calculators, talking calculators and scientific calculators. Other electronic products produced by the Group include world time calendars, brick game sets, digital clocks and Euro converters.

The Group currently produces about 60 and 70 types of pocket calculators and desktop calculators respectively, which have typical features (such as basic arithmetic functions, 8 to 12-digit liquid crystal displays ("LCDs"), memory functions, battery and/or solar power with automatic power saving features). In addition to these basic arithmetical functions, the talking calculators and scientific calculators also have specially designed functions. The Group has produced about 12 types of talking calculators and 8 types of scientific calculators.



For the year ended 31 December 2001, the Group's pocket calculators, desktop calculators, talking calculators and scientific calculators accounted for 46%, 24%, 7% and 5% of the Group's turnover respectively.

During the year, KADIO, targeted at the high-end market, and TAKSUN, priced at more medium levels, accounted for 29% and 70% of the Group's turnover respectively. The Group launched about 60 new types of calculators during the year, and continuously modifies product design and functions for different markets.

In November 2001, the Group received orders to manufacture Euro converters for the Italian Government. The Italian Government ordered a total of 18 million "Lira-Euro converters" from Hong Kong manufacturers. The Group was responsible for producing one-third of this order, a total of 6 million converters, the single largest order received in Hong Kong. Leveraging its production capacities and committed quality control on products, the Group was able to overcome the challenges brought about by the huge quantities and tight production schedule and thus the Group was managed to become the first manufacturer to deliver the Lira-Euro converters. This experience marks the Group's commitment in exploring the European market and in generating new income.



During the year, the Group enjoyed a breakthrough in product development. Besides producing calculators, the Group also enhanced its capabilities in LCDs production, a key step forward in producing hi-tech products.

PRODUCTION FACILITIES

The Group's production facilities are located in Putian County, Fujian Province, the PRC, with about 80 production lines assembling all components, including plastic casings and printed circuit boards, etc. At present, it has a daily production capacity of about 310,000 products units.

During the year, the Group invested HK\$4 million for the expansion of its production facilities for LCDs with current monthly production capacity of approximately 50,000 sets. The Group completes LCDs production in approximately 14 days, in comparison to the 3 to 4 week supply lead times commonly taken by other LCDs vendors. The vertical integrated production enables effective quality assurance, secures component supply, shortens order time, therefore, enhances efficiency. Currently, the Group's LCDs are mainly manufactured for the production of the Group's calculators.

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At present, the Group only supplies a small amount to other manufacturers for product and market tests.

GEOGRAPHICAL DISTRIBUTION

The major markets of the Group are: (i) India; (ii) elsewhere in Asia; (iii) Africa, Western Europe, the Middle East, North and South America, and Russia; accounting for approximately 28%, 32% and 39% respectively for the year ended 31 December 2001. The Group also sells products to Hong Kong.

Other than the major markets in Asia, the Group is committed to further exploring the Eastern European and Russian markets. With the Group's quality products and well-established brand names, the Group received a number of new orders from these markets. These markets with their huge potential will be a major focus for the Group's geographical expansion.

STRATEGIES

With intense competition in the electronics industry, the Group will continue to implement prudent cost controls and produce components for self-consumption to lower production costs. We will therefore be able to fix prices at competitive levels to maintain our competitive advantages.

The Group will continue the implementation of strict quality controls and effective management, using quality comparisons and awards systems to improve both product quality and productivity. Hand-in-hand with its product-development professionals who have extensive experience and sufficient capital investment, the Group's research and development capabilities will be further improved.



The Group's product development department is principally responsible for designing and developing new products and enhancing the Group's existing products. The Group is able to capture market trends to design innovative calculators, that look like watches or mobile phones with colourful casings, to meet the needs of the various customers and markets. At the same time, the Group keeps in close contact with overseas clients to obtain market information and

understand their needs, to design new models and calculators with improved functions to meet market developments.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The proceeds from the Share Offer, after deduction of related issuance expenses, amounted to approximately HK\$47 million. These proceeds were partially applied during the period ended 31 December 2001 as follows:

- (a) as to approximately HK\$9 million for the acquisition of additional machinery and equipment to increase the Group's production capacity for calculators;
- (b) as to approximately HK\$4 million for the construction of factory premises to house additional machinery and equipment for the production of calculators;
- (c) as to approximately HK\$4 million for the expansion of the Group's production facilities for LCDs;
- (d) as to approximately HK\$5 million for the expansion of the Group's existing product lines of calculators and the development of new product lines such as electronic organisers and watches;
- (e) as to approximately HK\$1 million for marketing and promotion; and
- (f) as to approximately HK\$10 million as general working capital for the Group.

The balance of the proceeds of approximately HK\$14 million was placed on short term deposits with financial institutions in Hong Kong as at 31 December 2001.

The actual and intended applications of the net proceeds of the Share Offer are consistent with the plans set out in the prospectus of the Company dated 6 September 2001.

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NUMBER AND REMUNERATION OF EMPLOYEES

At 31 December 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 share options have been granted up to the date of this report.