

## • Management Discussion & Analysis

### RESULTS

The Group's turnover for the year under review amounted to approximately HK\$276 million, representing an increase of 25.2% as compared with the previous year. Profit attributable to shareholders recorded a growth of 45.5% over the previous year, amounting to HK\$32 million. The Group recorded a gross profit of approximately HK\$66 million, which is 23.8% of the turnover as opposed to 22.8% in the previous year. Total selling and administrative expenses were approximately HK\$32 million. Net profit margin increased from 9.9% to 11.5%.

### BUSINESS REVIEW

The Group's turnover was derived principally from the sales of its three categories of products. They are personal computer peripherals, networking products and computer accessories, with each accounting for approximately 66.2%, 29.5% and 4.3%, respectively of the Group's total operating revenue for the year ended 31 December 2001.

#### Personal computer peripherals

Personal computer peripherals, the major product category of the Group, include PC chassis, multi-media speaker, keyboard, mouse and PC power supply pack.

For the year under review, sales of the personal computer peripherals decreased to 66.2% when compared to 87.1% of 2000. The decrease in turnover was mainly due to the diversifying products mix of the Group in 2001. Gross profit contributed by this category reached approximately HK\$33 million (2000: HK\$40 million). The Group strongly believes that the PC industry as a whole is still growing in the medium to long term. According to International Data Corporation ("IDC"), PC shipments are expected to rise by 12.2% in 2002. Therefore, it was expected that demand for computer peripherals of the Group will grow in line with the increasing demand for PCs worldwide.

#### Networking products

Networking products mainly include IPC networking server barebone systems, server chassis, network power supply pack, Ethernet switch and UPS.

For the year under review, sales of the networking products accounted for 29.5% of the Group's turnover, increasing substantially when compared to the previous year's 9.3%. Gross profit of this sector reached HK\$28 million (2000: HK\$8 million). The Group considers that such significant increase in turnover was mainly benefited from the increase in small to medium enterprises ("SMEs") using the Group's networking products, as they are able to build their customized network systems without paying high premiums to international brandname manufacturers of networking systems.

In view of the above advantages and to further explore the market for networking products, the Group commenced the delivery of IPC networking server barebone systems to the market in August 2001. This IPC networking server barebone system is a skeleton network system, principally consisting of a server cabinet, fast Ethernet switch, KVM switch, IPC chassis, UPS, redundant power supply, hot swap mobile rack, patch panel and cable connector.

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### Computer accessories

The computer accessories produced by the Group include CPU fan, hard disk cooling kit, data cable, computer data switch and multi-port USB hub.

Sky Hawk offers computer accessories as complementary products to meet the comprehensive needs of customers. These products do not constitute a major source of revenue for the Group and thus contributed to 4.3% of the total turnover during the year under review.

### GEOGRAPHICAL ANALYSIS

Europe continued to be the most major market for Sky Hawk and orders inflow from customers remained to be stable. Asia Pacific rose from being the third largest market for the Group to become the second largest with sales increasing by 43.0%, since orders for aluminium alloyed products from Japan were very promising. Though North America contributed to a relatively smaller portion of the Group's turnover, the absolute sales value grew as compared to the previous year. The US market has not been affected by the "September 11th World Trade Center attack". Moreover, South Africa showed a growth of 17.3%.

### PRODUCTION FACILITIES

The Group leased plants at G.S.D. Industry City, Ping Shan, Long Gang District in Shenzhen as its production base. With an aggregate gross floor area of 51,713.6 square meters, the plants have a total of 14 buildings and comprise the three production departments, namely Metal Work Department, Plastics & Moulding Department and Electronics Department, research and development center and staff dormitory. The plants produced 3,254,695 units of computer peripherals, 295,295 units of networking products and 2,808,843 units of computer accessories in 2001.

### EXPANSION STRATEGIES

#### Pioneer of aluminium alloyed products

During the review year, the Group devoted lots of effort to resolve the heat dispersal problem of CPUs and successfully developed the innovative technology for producing computer chassis with aluminium alloys. This not only allowed us to comply with the stringent demand of the world's famous micro-processor manufacturer, Intel, but also made our R&D capabilities highly recognized in the industry. The highly thermal conductive property of aluminium alloyed chassis is fully utilized, which significantly reduces the overheat phenomenon of high performance CPU and power supply, thus extending the life-span of computer systems. With such great advantage, aluminium alloy will undoubtedly become the essential material for manufacturing computers in the new age. As Sky Hawk is the only one computer peripheral and network product producer in the PRC which meets the EMI/EMC safety benchmark, this product of ours successfully gained the recognition of international motherboard and system manufacturers, which in turn resulted in its spectacular sales performance. During the year under review, aluminium alloyed chassis and frames account for 11.9% and 20.2% of the Group's turnover and gross profit respectively. In view of the satisfactory sales of these products and the higher acceptance in the market, we believe the Group will further enhance its profitability as the use of aluminium alloy in computer peripherals and networking systems becomes popular.

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### Own brandnames & OEM

The Group has established its own brandnames, SKY HAWK, EAGLE and SKY LINK, in the medium and premium markets of personal computer peripherals, networking products and computer accessories. During the year, its own brandnames business contributed to 40.6% of the Group's turnover, amounting to approximately HK\$112 million. Los Angeles was the major market for the Group's own brandnames products. Meanwhile the Group has been continuously expanding OEM business and exploring new marketing channels.

### Research & Development

In order to enhance the Group's competitiveness, there are various plans in the pipeline. These include accelerate the development and production of new products that match changing technologies by increasing the number of research and development professionals, particularly in application software in relation to IPC, servers, wireless LAN and storage systems field, and acquiring advanced testing equipment to enhance the quality of our R&D process.

### Production Automation

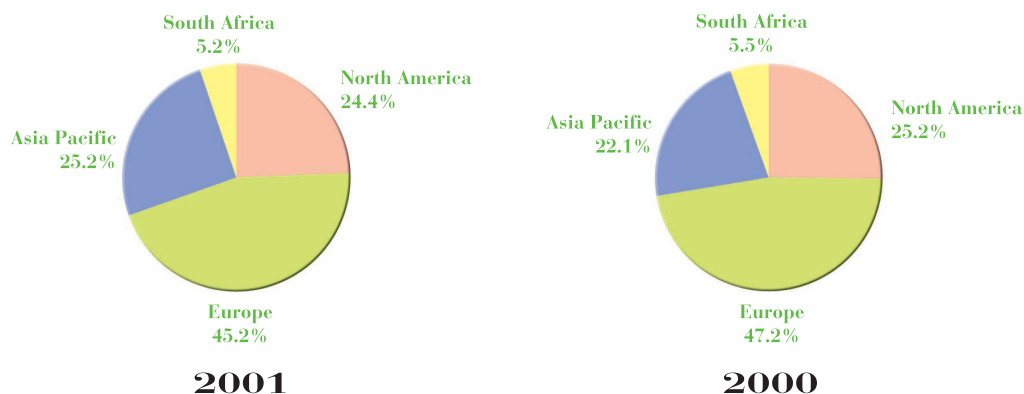
In the area of production automation, apart from enhancing the automation and mechanization of the Group's production facilities, the Group will establish a network system assembly production center for provision of total solutions to customers of networking products.

### Sales Network

The Group will enhance the existing sales and marketing network to cater for the Group's worldwide customers and OEM business, by establishing new channels in major provinces and municipalities of the PRC and expanding the sales and marketing team in Taipei.

### Turnover breakdown by market

(For the year ended 31 December)



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### FINANCIAL REVIEW

#### Financial Position

The Group's financial position reflected the strength of its operating results.

The total distribution and administrative expenses as a percentage of total turnover remained relatively constant at 12.7% and 11.5% for 2000 and 2001, respectively. The relative increase in amount of distribution and administrative expenses were mainly associated with the cost for business expansion which resulted in the increase in professional fees, increase of headcount and relevant costs. There was also an increase in the provision for doubtful debts of HK\$3.1 million in 2001 as a result of the generally weak worldwide economic environment in the latter half of 2001.

The Group has been adopting an effective inventory control policy. As at the balance sheet date, inventories stood at HK\$39 million, which was HK\$11 million lower than the previous year. It was primarily due to the fall in the stock of raw materials by approximately HK\$10 million.

Trade and other receivables increased from HK\$69.6 million last year to HK\$110 million this year, mainly due to the expanded business.

#### Liquidity, financial, resources and capital structure

As at 31 December 2001, the Group had net current assets of HK\$72.7 million (2000: HK\$42.4 million) and net tangible assets of HK\$122.3 million (2000: HK\$90.6 million).

The Group's cash needs are primarily for working capital to support its manufacture and distribution business. As at 31 December 2001, the Group's short-term borrowings totalled approximately HK\$10.2 million, representing a decrease of approximately HK\$4.5 million from HK\$14.7 million last year. Such borrowing were denominated in New Taiwan dollars and in Hong Kong dollars. The Group had no long term debt. The interest rates of these borrowings are ranged from 5.25% to 7.797% and all borrowing will be repayable within one year. Interest expenses were insignificant, which amounted to HK\$1.3 million (2000: HK\$1.4 million) during the year under review. The Group generally services its debts primary through cash generated from its operations. As at 31 December 2001, cash and cash equivalents of the Group totalled approximately HK\$7.2 million. Net debts (total borrowings net of cash and cash equivalents) decreased by 50.7% to HK\$3.0 million from HK\$5.9 million last year.

The banking facilities of certain subsidiaries are secured by mortgages over their land and buildings with an aggregate carrying value of HK\$6.0 million (2000: HK\$6.3 million). Apart from the above, the Group did not have any charges on its assets or any guarantees or other material contingent liabilities.

The Group's gearing ratio as at 31 December 2001 was 4.9% (2000: 8.3%), which is expressed as a percentage of the total bank loans over the total assets.

The business activities of the Group do not expose to material fluctuations in exchange rates except for the operations through its subsidiaries in Taiwan and the PRC, which are subject to fluctuations in exchange rates between new Taiwan dollars and Hong Kong dollars, and between Renminbi and Hong Kong dollars respectively.

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The Group will conduct periodic review of its exposure to foreign exchange risk. As the Group's revenue was substantially denominated in US dollars, the Group has strategically maintained certain portions of its cash and bank balances in US dollars to minimize the risk of potential loss arising from foreign exchange fluctuations.

### TREASURY POLICIES

With the focus on risk management, the Group adopts a conservative approach towards its treasury policies in order to monitor its foreign exchange risk, credit risk and liquidity risk. Monetary assets of the Group include cash, trade receivables, prepayments and other receivables. Monetary liabilities of the Group include trade payables, secured bank loans, accrued expenses and other payables. The Group strives to minimise the foreign exchange risk by achieving a balance between monetary assets and monetary liabilities in foreign currencies against Hong Kong dollars. To reduce exposure to credit risk, the Group performs ongoing credit evaluations of the financial condition of its customers. To manage liquidity risk, the Group closely monitors its liquidity to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding needs.

### EMPLOYEES AND EMOLUMENTS POLICIES

During 2001, the average number of employees is 1,708 (2000: 1,633) with remuneration for the year amounting to approximately HK\$23 million (2000: HK\$21 million). The remuneration policy and package of the Group's employees are based on their performance, experience and prevailing industry practices.

In addition, the Group conditionally adopted a share options scheme on 28 December 2001, for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The directors may, at their discretion, invite any employee or directors of the Group and any qualified persons as set out in the scheme, to subscribe for shares of the Company at a price to be determined by the Board. During the year ended 31 December 2001, no option was granted under the share option scheme.

The Group's subsidiary in the PRC participates in a defined contribution retirement scheme organised by the PRC municipal government and is required to make contribution at 8% of the relevant PRC employees salaries to the scheme. The Group has also adopted a provident fund scheme for its employees in Hong Kong as required under the Mandatory Provident Fund Scheme Ordinance.

### APPLICATION OF PROCEEDS OF NEW ISSUE

The Group raised approximately HK\$45 million (of which approximately HK\$7million was raised from the exercising of over-allotment option), net of related expenses, from the Share Offer. The Company's shares (the "Shares") were successfully listed on the Stock Exchange with effect from 17 January 2002. The net proceeds of HK\$45 million will be applied as stated in the Prospectus as follows:

- as to approximately HK\$10 million for expansion of the Group's research and development team;
- as to approximately HK\$15 million for extension and expansion of the Group's respective existing and new PRC sales and marketing channels;
- as to approximately HK\$2 million for setting up of SMD and AI lines of production;

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- as to approximately HK\$8 million for establishment of network system assembly production centre; and
- as to approximately HK\$10 million for the general working capital of the Group.

### FUTURE PLANS

To enhance the Group's competitiveness and further capture the enormous opportunities in the computer peripherals and networking products markets, the Group is determined to continue the following strategies to achieve its goals:

1. Increase the number of professionals to enhance existing research and development on networking products, accelerating the development and production of new products to match changing technologies.
2. Expand existing and establish new sales and marketing channels in major province and municipality in the PRC to develop the PRC computer peripherals and networking products market; and expand the sales and marketing team in Taipei to develop and serve the Group's worldwide customers and OEM business.
3. Enhance current production facilities to meet the increasing volume demand from customers and introduce new production lines for manufacturing of new products and for providing total solutions.
4. Purchase and install testing equipment to improve product quality and expand the software development team to develop applications software in relation to IPC, servers and storage systems.