



BUSINESS AND OPERATIONAL REVIEW

Despite an extremely tough business environment in the global electronic industry as well as the overall downturn in the economy, the Group was able to post a considerably improved performance for the year under review. This was attributable to the immediate measures by the management of the Group to tighten control over material costs and operational expenditure, and its timely decision to further broaden its customers' base, improving profit margins and expanding different product lines for ever-changing market demands.

As a result of the Group's ongoing efforts in diversifying its products, increasing its productivity and improving its profit margin, the Group recorded a turnover of approximately HK\$526 million, an increase of approximately 14 per cent. as compared with approximately HK\$460 million of the corresponding year in 2000. Net profit attributable to shareholders grew approximately 263 per cent. for the financial year ended 31 December 2001 to approximately HK\$6,168,000 from HK\$1,698,000 in 2000.

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 increased from approximately HK\$340 million in 2000 to approximately HK\$384 million in 2001, represented approximately 73 per cent. of the turnover of the Group.

The increase in turnover of electronic calculators and organisers was a result of the Group's strategy to focus on the consolidation of its key customers with higher profit margins. The Group's effort in this direction has resulted in an improved gross profit margin of approximately 16 per cent. for its major product categories, as against approximately 14 per cent. of the corresponding year in 2000.

During the year under review, the Group launched a series of over 30 models of euro-converters to the European countries with success in 2001 and it accounted for 11 per cent. of the Group's overall turnover for the year under review. As a result of the success of the Group's euro-converter program launched in 2001, the turnover of electronic calculators and organisers increased by 13 per cent. to approximately HK\$384 million for the year ended 31 December 2001.

To benefit from new market opportunities, the Group had also identified a number of established overseas distributors to distribute the electronic calculators and Databanks and Personal Digital Assistant ("PDA"). The electronic calculators and organisers are marketed under the Group's own brandnames "KARCE" and "COCO & JAN", to overseas markets including the Middle East, Africa and other South East Asian countries. The Group will maintain its strategy of promoting jointly with its overseas distributors to further stimulate the demand of such products.

In addition to the continuous re-engineering of our existing products to improve their efficiencies whilst lowering the production costs, the Group also embarked on the development of a number of new products during the year under review. The increase in turnover of electronic organisers derived from the increase in sales orders from customers on Databanks and PDA.

The Group will continuously adopt its business strategy for customers diversification, high value added production, effective cost control and quality management.

Conductive silicon rubber keypads

For the year ended 31 December 2001, the turnover of conductive silicon rubber keypads decreased to approximately HK\$41 million (2000: approximately HK\$49 million) representing approximately 8 per cent. of the turnover of the Group. During the year under review, the business strategy continued to address on the consolidation of its key client base and the provision of service to 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\$4 million.

Demand of electronic calculators, electronic organizers and mobile phones from the United States and the European Union is expected to continue to increase, and export 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 2002.

The Directors are also of the view that the strategic alliance with Prove Limited in 2002 will offer an opportunity for the Group to strengthen its customer base in Japan and the PRC. Through the strategic alliance upon the acquisition of Dongguan Tehsutec Electronic Company Limited, the Directors believe that the conductive silicon rubber keypads segments will become one of the major revenue contributors in the Group to provide a basis for future revenue growth of the Group.

Printed Circuit Boards ("PCB")

For the year ended 31 December 2001, the turnover of PCB increased significantly to approximately HK\$88 million (2000: approximately HK\$70 million), representing approximately 17 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 or double layers to multi-layers.



During the year under review, the Group spent HK\$12 million for the acquisition of the machineries. Upon the acquisition of the machineries, the Group has reverted back about one-third of the complexity work from outside subcontractors and the subcontracting fees had reduced to approximately HK\$7 million for the year ended 31 December 2001 (2000: approximately HK\$10 million). Accordingly, the PCB segments recorded a profit from operations of approximately HK\$3.4 million (2000: loss from operations of approximately HK\$6.5 million).

In view of the substantial growth momentum in PCB business, the Group will further consider to spend approximately HK\$8 million to acquire machineries in the coming year. The Directors believe that the future performance and prospects of the PCB business are optimistic.

Other operations

For the year ended 31 December 2001, the Group spent approximately HK\$9.4 million on the development of DECT phone and telecommunication products. (2000: HK\$Nil).

Turnover derived from the above new businesses and products, such as Parafone and 1.8 GHz DECT phones, recorded approximately HK\$12 million in the fourth quarter of 2001. As these product lines are still at the initial investment stage, their contribution remains insignificant in the financial year of 2001. For the year ended 31 December 2001, the cordless telephone segments recorded an operating loss before taxation of approximately HK\$7.5 million.

Although the investment in new products and business lines has clearly impacted the Group's earnings this year, the Directors believe that it is a sound investment in exciting new areas of growth that will sustain returns to shareholders in the coming years, as earnings from new businesses come in.

For the year ended 31 December 2001, the overall gross profit margin of the Group increased by approximately 2 per cent. to approximately 16 per cent. (2000: approximately 14 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 models of raw materials and finished goods amounted to approximately HK\$9,068,000 (2000: HK\$5,793,000) were held over for over one year by the Group. For prudence sake, the Directors had made a full provision of approximately HK\$9,068,000 (2000: HK\$5,793,000) for these stocks in the current financial year.

Nevertheless, consolidated net profit attributable to shareholders for the year ended 31 December 2001 amounted to approximately HK\$6,168,000, representing an increase of approximately 263 per cent. over the corresponding year in 2000.

Shareholders' equity increased to approximately HK\$309 million as at 31 December 2001 from approximately HK\$298 million as at 31 December 2000.

CAPITAL STRUCTURE

As at 31 December 2001, the consolidated shareholders' equity of the Group was HK\$309 million, representing a growth of approximately 4 per cent. over the corresponding year in 2000. As at 31 December 2001, the short term and long term interest bearing debts to shareholders' equity was approximately 22 per cent. (2000: approximately 15 per cent).

LIQUIDITY AND FINANCIAL RESOURCES

	2001 HK\$'000	2000 HK\$'000
Net cash inflow from operating activities	<u>60,460</u>	<u>40,007</u>
Net cash (outflow) from:		
Returns on investments and servicing of finance	(2,066)	(5,542)
Taxation paid	(2,058)	(1,024)
Investing activities	<u>(33,041)</u>	<u>(14,027)</u>
	<u>(37,165)</u>	<u>(20,593)</u>
Net cash inflow from financing activities	<u>11,079</u>	<u>29,949</u>
Cash and cash equivalents at end of year	<u>78,980</u>	<u>44,606</u>

The net cash inflow from operating activities was approximately HK\$60 million in 2001, compared with an inflow of approximately HK\$40 million in 2000. It mainly reflected the profit from ordinary activities and decrease in the level of inventories and trade receivable. The net cash outflow from investing activities amounted to approximately HK\$33 million in 2001, reflecting primarily the acquisition of certain machineries for the production of electronic calculators and organisers, PCB and DECT phone products.

The Group generally finances its operation by internal 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 2001, the Group had fixed deposits and cash balances aggregated to approximately HK\$81 million (2000: approximately HK\$46 million).



In addition, the Group currently has aggregate composite banking facilities of approximately HK\$160 million (2000: approximately HK\$160 million) with various banks. The trade and overdraft banking facilities of approximately HK\$102 million (2000: approximately HK\$102 million) in Hong Kong, of which approximately HK\$4.6 million (2000: approximately HK\$1.5 million) had been utilized as at 31 December 2001, and the term loan banking facilities of approximately HK\$53 million (2000: approximately HK\$40 million) in the PRC. All the term loan banking facilities in the PRC are denominated in Renminbi.

As at 31 December 2001, total indebtedness including bank borrowings and obligations under finance leases and hire purchase contracts amounted to approximately HK\$69 million (2000: approximately HK\$46 million).

The total indebtedness as at 31 December 2001 represented approximately 22 per cent. of the total shareholders' equity (2000: approximately 15 per cent.).

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 had 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 on 25 August 2000.

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

- approximately HK\$16 million for developing new products including PDA, web cameras, electronic books, DECT phones and other electronic toys products;
- approximately HK\$12 million for the promotion of the electronic organisers and other electrical products; and
- the remaining balance of approximately HK\$11 million from the private placing are now placed on short term deposits with banks and will be utilized for developing new products including 2.4 GHz cordless phones and electronic toys products in the coming year.

The Directors believe that the proceeds of the private placing will be utilized as planned and in the interests of the Group and its shareholders taken as a whole.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2001, the Group employed approximately 4,930 full time employees, of which approximately 80 were based in Hong Kong and approximately 4,850 were based in the PRC. The Group remunerates its employees on the basis of industry's practice and performance of the individual employee.