

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Despite the continuous depression in the global economy and keen competition in the electronics industry, the Group is delighted to have achieved satisfactory results during the Period. For the Period, the Group recorded turnover of approximately HK\$285 million, while net profit from ordinary activities attributable to shareholders amounted to approximately HK\$36 million, representing a surge of 35.2% and 46.0% respectively compared to the corresponding period last year. The growth was mainly attributable to the strong market demand for the Group's products and the effective cost control measures in production implemented by the Group. In addition, as a result of the utilisation of the second liquid crystal displays ("LCDs") production line during the Period, the gross profit margin increased to 21.4% from 20.7% of the same period of last year. As a result, the Group's overall profitability was improved.

The Group is principally engaged in the design, manufacture and sale of calculators and other electronic products. Calculators manufactured by the Group are classified into four categories, including pocket calculators, desktop calculators, talking calculators and scientific calculators. To meet the huge market demand, the Group launched about 30 types of mid-range commercial calculators in India under the KADIO brand during the Period. Sales have been satisfactory. At 30 June 2002, the Group produced more than 180 different types of calculators, 150 of which were launched previously, with various special features, such as calendar and talking functions.

The Group had successfully completed the order of 6 million Italian "Lira-Euro converters" within 3 months. This has highlighted the Group's capabilities in meeting tight deadlines even with vast order quantities and sustained product quality. These orders also marked the successful expansion of the Group's business to the European market. The Group has also successfully expanded into the Dutch market and has been receiving orders for the production of desktop electronic clocks since April this year. Leveraging its extensive experience in market expansion and production technology, the Group is confident that it will broaden its geographical distribution to other leading countries in the European Union.

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Business Review *(continued)*

Currently, the Group enjoys widespread coverage in its major markets, including India, Asia, Africa, Western Europe, the Middle East and Russia, among others. With its quality products and well-established brands, the Group has continued to receive ongoing orders during the Period, extended its presence into the Italian and Dutch markets. This has strengthened the Group's market coverage and exploration into new markets.

The Group's production facilities are located in Putian County, Fujian Province, the PRC, with current daily production capacity running at approximately 330,000 products unit. Orders-on-hand is about two months. A LCDs production line was installed in March 2002, enabling the Group to complete LCDs production in approximately 14 days. During the Period, the aggregate monthly productivity of the two LCDs lines reached 95,000 sets. This is expected to increase to 110,000 sets during the year ending 31 December 2002. The LCDs produced were used in the production of the Group's own-brand, KADIO and TAKSUN calculators. In addition, the Group is selling some of its LCDs to other electronic products manufacturers in line with their production and market needs. As a result, a new income source has been generated for the Group. Sales of LCDs accounted for approximately 3% of the total turnover during the Period.

To further enhance the control and management of materials, the Group has installed printing machines for packaging production which can fulfill the size and specifications according to its own individual product needs. This has not only reduced reliance on material suppliers, but has also enabled the Group to better control its production quantity and quality.

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Liquidity and Financial Resources

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 2002, the Group had interest-bearing bank loans of approximately HK\$18.7 million (31 December 2001: HK\$19.0 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 loans denominated in Hong Kong Dollars as at 30 June 2002 had maturity beyond one year. At 30 June 2002, 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 30 June 2002, the Group's bank loans 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 2002.

At 30 June 2002, the Group had current assets of approximately HK\$199.0 million (31 December 2001: HK\$156.5 million) and current liabilities of approximately HK\$117.7 million (31 December 2001: HK\$95.0 million). The Group's current ratio had improved from approximately 1.6 times as at 31 December 2001 to approximately 1.7 times as at 30 June 2002. The Group had total assets of approximately HK\$292.4 million (31 December 2001: HK\$243.1 million) and total liabilities of approximately HK\$121.8 million (31 December 2001: HK\$99.3 million), representing a gearing ratio of approximately 41.7% as at 30 June 2002 as compared with approximately 40.8% as at 31 December 2001.

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Prospects

In view of the intense competition in the electronic market, the Group will continue its stringent controls on product quality and production, to improve its operating efficiencies and control its production costs, thus, enhancing the Group's competitiveness.

At present, the Group owns two brands. TAKSUN is priced at more medium levels, and KADIO is targeted at the mid-range market. Owing to the tremendous demand for quality high-end electronic calculators at reasonable prices in the PRC market, the Group plans to launch a new brand, "ISA" in October 2002, targeting this niche market. The Group is committed to promoting a range of electronic products for the different markets which enable the Group's product to be more comprehensive and diversified. The Group will launch personal digital assistants ("PDAs"), telephones and high-end calculators under the ISA brand, to improve the Group's competitiveness and profitability.

In addition to its existing markets, the Group will promote ISA products to the PRC, Eastern Europe and markets where there are vast potential. These new ISA products are expected to bring promising returns for the Group within a short period of time. The Group is confident that the launch of new products and active expansion in its geographical distribution, the Group's market coverage will be further extended.

New factory premises and an office building adjacent to the existing production plant are now under construction and will be completed in early 2003. The construction of a warehouse, which will provide more space for material storage, is expected to be completed in September 2002. In addition to the installation of at least eight new production lines for calculators in the second half of the year, to cope with the production of ISA telephones, the Group will invest and set up telephone production lines to capture the large market demand.

At the same time, the Group has upgraded its production facilities for the production of supertwisted nematic-liquid crystal displays ("STN-LCDs") after setting up its second LCDs production line, and has commenced trial production. The new STN-LCDs are expected to be launched in the market by the end of 2002. Most of the STN-LCDs will be sold to other manufacturers, while the remaining will be used as components in the Group's PDAs and telephones. This will fertilise the Group's abilities to produce hi-tech products. The manufacturing of hi-tech electronic products will create new income stream for the Group.

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Prospects *(continued)*

To stabilise material supplies and reduce production costs, the Group is planning to produce LCDs with a greater surface area, measuring 14" x 17" instead of the original 14" x 16", and the new sized LCDs are now under trial production. The new product will cater for more production needs and strengthen overall production flexibilities.

The Group is expecting a breakthrough in production efficiency and product research and development in the second half of 2002. Leveraging its well-established goodwill within the industry and its extensive experience in production technology, the Group is optimistic of its business development in the next half of the year.

Use of Proceeds from the Company's Initial Public Offering

The proceeds from the Company's issue of new shares at the time of its listing on The Stock Exchange of Hong Kong Limited on 18 September 2001, after deduction of related issuance expenses, amounted to approximately HK\$47 million, of which approximately HK\$33 million were applied as at 31 December 2001. During the Period, the remaining net proceeds of approximately HK\$14 million were partially applied as follows:

- as to approximately HK\$1 million for the acquisition of additional machinery and equipment to increase the Group's production capacity for calculators;
- as to approximately HK\$4 million for the expansion of the Group's production facilities for LCDs; and
- as to approximately HK\$4 million for the construction of factory premises to house additional machinery and equipment for the production of calculators.

The balance of the proceeds of approximately HK\$5 million was placed on short term deposits with financial institutions in Hong Kong as at 30 June 2002.

The actual and intended applications of the net proceeds from the issue of new shares are consistent with the plans set out in the prospectus of the Company dated 6 September 2001.

Number and remuneration of employees

At 30 June 2002, the Group employed approximately 5,500 staff and workers in the operation of its business 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. On 18 September 2001, the Group adopted a share option scheme under which the Board can, at its discretion, grant options to the Group's employees. Up to the date of this interim report, no share options have been granted.