Management Discussion and Analysis

REVIEW OF RESULTS AND OPERATION

Successful launch of new products and continuous improvement in the operating environment contributed to a strong revival of the Group's performance over the previous year. For the year ended 30 September 2002, the Group recorded a consolidated turnover of HK$693,260,000, up 4.8% from a year ago. Pretax profit for the period was HK$33,789,000, compared to HK$8,044,000 a year ago. New products helped maintain overall gross margin at a comfortable level of 13.6%, compared with the previous 13.5%, despite mounting pressure to cut prices as a result of fierce competition. Net profit for the period amounted to HK$30,219,000, representing a significant rebound from HK$5,453,000 a year ago.

Sales of electronic calculators and electronic watches and clocks advanced 26.7% and 18.7% respectively following successful introduction of new products including Euro-conversion calculators, scientific and double-line display calculators and as a result of cost efficiency stemming from economies of scale. The two business categories contributed 63.3% and 5.0% respectively of the Group revenues.

Sales of quartz crystals and liquid crystal displays ("LCD") accounted for 7.9% and 6.5% of the Group's turnover respectively. The Group remained to be one of the largest manufacturers of quartz crystals and LCD in the People's Republic of China (the "PRC").

A new STN-LCD line was installed during the year, enabling production of larger 14" x 16" LCD panels in addition to the existing 7" x 8" panels. The larger panels can be segregated into sizes which are applicable on such higher-priced products as electronic dictionaries and caller identity display panels. This new line is undergoing pilot production tests and will soon contribute to the Group's turnover. To further the Group's product upward penetration, it is exploring the feasibility of producing LCD modules.

The production volume of high-frequency quartz crystal was yet to reach a level that reaps most benefit from economies of scale. In order to optimize production scale, the Group targets to boost its capacity in the coming year through active improvement in marketing and management.

The sales of integrated circuits ("IC") increased by 21.3%. The Group currently owns about 5% of Angstrem Joint Stock Company ("Angstrem"). Based in Russia, Angstrem is a leading manufacturer of IC that supplies about 80-90% of the Group's IC inventory. The Group has decided to maintain its equity relationship with Angstrem unchanged in the foreseeable future but will continue to explore ways to foster closer business relationship with it.

REVIEW OF RESULTS AND OPERATION *(continued)*

Finance costs rose by 35.3% to HK$17,326,000 due to premium paid for convertible bonds redeemed during the year. The Group has fully repaid this convertible bond issue and will cease to incur any interest and repayment liabilities in the coming year.

Maintenance of a reasonable level of inventory has always been instrumental for the Group in providing swift response to market demand. We find there is still room for our inventory to tighten further as our understanding about the market develops and accumulates. This will not only improve our end-of-period gross performance but also provide a positive impact on our cash-flow management. We shall continue to pursue excellence in this area.

In parallel, we are also pursuing tighter management of our account receivables through periodic review of the credit terms of our customers. We have continued to monitor the debtors' repayment time and our efforts have recalled some long outstanding debts.

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. At 30 September 2002, the total shareholders' equity of the Group was approximately HK$861,014,000, an increase of 6.7% over last year. The Group's cash and bank balances stood at HK$135,057,000. The Group's borrowings and trust receipt loans amounted to HK$156,306,000, an increment of 26.4% as compared with last year. The increment was mainly due to the increase in secured bank loans of HK$33,118,000. The bank loans were denominated in Renminbi and US dollars. The gearing ratio, which was computed by dividing the current liabilities and long term debt by shareholders' equity, has lowered from 36.4% last year to 29.3% at 30 September 2002.

CAPITAL STRUCTURE

During the year, the Company's convertible bonds issued in the year 2000 were fully converted or redeemed. The Group will cease to incur any interest expenses and potential dilution liabilities in the foreseeable future.

During the year, the Company repurchased a total of 4,854,000 ordinary shares of HK$0.10 each of the Company on The Stock Exchange of Hong Kong Limited, all of which were cancelled.

No share options were granted or cancelled, or lapsed during the year.

PLEDGE OF ASSETS

Certain leasehold land and buildings, the investment property and the time deposits of HK$8,080,000 of the Group, together with the corporate guarantees given by certain related companies and the Company are used to secure banking facilities of the Group. At 30 September 2002, such facilities were utilized to the extent of approximately HK$156,306,000.

APPLICATIONS OF PROCEEDS OF SHARE OFFER

The remaining balance of about HK$137.3 million of the net proceeds raised from the share offer in 1999, is allocated to be applied to the investment in the joint venture, Taiwan Communication (Fujian) Company Ltd. As the progress of the projects implemented by Taiwan Communication (Fujian) Company Ltd proceeded at a slower pace than planned, the Directors are considering allocating part of such proceeds to other investment opportunities. If any specific targets are identified, the Directors will make announcement in accordance with the applicable rules.

EMPLOYEES AND REMUNERATION POLICIES

The Group has approximately 15,000 full time management, administrative and production staff in the PRC and Hong Kong. The remuneration, promotion and salary review are assessed based on their work performance, work and professional experiences and the prevailing industry practice. The Group's Directors and employees in Hong Kong joined the Mandatory Provident Fund Scheme. Other staff benefits include options granted or to be granted under share option scheme (the existing one being proposed to be cancelled and a new one to be adopted, details of which are set out in the circular sent to shareholders together with this Annual Report) and rent-free quarters.

PROSPECTS

The Group currently enjoys the best manufacturing and cost efficiency among its peers, the best purchasing power in the industry and most sophisticated network of distribution channel in the market. The management aspires to continue to leverage on these strengths in the coming years to steer the Group to a more advanced stage of corporate development.

We plan to further strengthen our R&D teams stationed in Hong Kong and Fujian, which are supported by a design house specialising in product outlook creations.

PROSPECTS *(continued)*

To better orchestrate and execute our sales and distribution strategies in wake of China's accession to the World Trade Organization, we shall strengthen our business development team. In addition to raising our profile through participation in trade and industry fairs, we have also organized a partnership symposium to meet with all our premier dealers and distributors in the PRC. During this symposium, we have presented to our distribution partners the Group's new product and development plans, and have opened up direct communication with them to enhance our future co-operation.

Already possessing a dominant position in major cities in the PRC, we plan to extend our reach to the northwest part of the country, including the legendary city of Chengdu, China's most populated city with the largest potential.

We shall establish an export sales department in our production base in Fujian in an effort to respond more promptly and directly to overseas customers who heightened their demand for speedy and efficient services over the past few years. This move is of a strategic importance to us as we saw pick up in demand from Europe, the Middle East, South Africa, India, Indonesia and exotic markets alike.

We hold an optimistic view of our Group's prospects and the market in the coming year, based on the encouraging performance in the past year and continued robust sales figures we collected after the balance sheet due date.

Wong King Ching, Helen
Chairman

23 January 2003