

## FINANCIAL REVIEW

During the year ended 31 December 2002, the Group's turnover amounted to approximately HK\$503 million, representing an increase of 13.9% in comparison with HK\$441 million of last year. Net profit from ordinary activities attributable to shareholders increased to approximately HK\$62 million, showing an increase of 24.5% against prior year. Despite the persistent downturn of the global economy, which caused various degree of impact to different industries, the Group nevertheless managed to record a growth in profit and the result was encouraging.

## LIQUIDITY AND FINANCIAL RESOURCES

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 2002, the Group had interest-bearing bank borrowings of approximately HK\$19.4 million (31 December 2001: HK\$19.0 million), of which approximately HK\$18.7 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. The Group's banking facilities were secured by (i) first legal charges on the leasehold land and buildings of the Group in the PRC; and (ii) corporate guarantees given by the Company and certain subsidiaries of the Company.

At 31 December 2002, 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 2002.

At 31 December 2002, the Group had current assets of approximately HK\$218.2 million (31 December 2001: HK\$156.5 million) and current liabilities of approximately HK\$124.4 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 1.8 times as at 31 December 2002. The Group had total assets of approximately HK\$321.1 million (31 December 2001: HK\$243.1 million) and total liabilities of approximately HK\$124.9 million (31 December 2001: HK\$99.3 million), representing a gearing ratio of approximately 38.9% as at 31 December 2002 as compared with approximately 40.8% as at 31 December 2001.

## PRODUCT DEVELOPMENT

The calculators produced by the Group are mainly divided into pocket calculators, desktop calculators, talking calculators and scientific calculators. For the year ended 31 December 2002, the four categories of calculators accounted for 36%, 29%, 11% and 6% of the Group's turnover respectively, with a total of over 180 types of calculators, including about 70 types of pocket calculators, 80 types of desktop calculators, 12 types of talking calculators and 8 types of scientific calculators.

Targeting the high-end market, KADIO calculators accounted for approximately 44% of the total turnover; while TAKSUN calculators, targeting the mass market, accounted for approximately 48% of the total turnover.

During the year under review, the Group launched a total of approximately 60 new types of calculators, including the ISA calculators, which target the high-end market. Favorable market response was received and the Group expected that the product could generate profit contribution in the coming two to three years.

Apart from calculators, the Group also produced other kinds of electronic products, including world time calendars, digital clocks and Euro converters. During the year under review, in a bid to diversify the business and to cater for the market needs, the Group was dedicated to develop more new products, including desktop telephones and multi-functional watches. The development of new products brought forth new opportunities and markets for the Group.

Leveraged on the Group's prudent quality control and production capacity, the Group received orders from the Italian Government to produce the "Lira-Euro converters" since November 2001. Orders from the European countries were received continuously due to the Group's advantage of operating efficiency and therefore further strengthened the Group's status in the industry.

Vertical integration was employed to improve the profit margin. As such, the Group invested in the production lines for the manufacture of liquid crystal displays ("LCDs"). Among which, the specialized production line for the manufacture of hi-tech STN-LCDs was the investment and production highlight of the Group.

## PRODUCT CAPABILITY AND QUALITY

The Group continuously improved the product capability and quality along with the research and development ("R&D") of new products, aiming to provide products of enhanced quality to the customers. During the year, the Group improved the quality of the LCDs, such that better visual quality and character display were achieved.

In addition, the Group also modified the design of the products. For example, the color and style of the casing were both improved during the year. The Group was dedicated to providing the customers with new products embracing both capability and innovative design.

## PRODUCTION FACILITIES

The Group's production facilities are located in Putian County, Fujian Province, the PRC. The current daily production capacity is approximately 330,000 units, with 90 production lines responsible for assembling all components, including plastic casings and printed circuit boards, etc. The Group's new investment in the construction of 3-storey production premises and office building will be completed in June 2003, which will further enhance the Group's production capacity.

Moreover, the Group had also planned to invest approximately HK\$40 million in the purchase of production facilities during the year of 2003. Among which, about HK\$30 million was invested in the production lines of STN-LCDs. The current monthly production capacity of LCDs is about 110,000 sets, which allowed the Group to produce quality LCDs for its own electronic products. The vertically integrated mode of production enables effective quality assurance, secures component supply and shortens the order time. Presently, the Group also supplies a small amount of samples to local producers of electronic products for market testing.

### MARKET DEVELOPMENT

For the year ended 31 December 2002, the Group's turnover distribution in (i) India; (ii) elsewhere in Asia; (iii) Africa, Western Europe, the Middle East, North and South America and Russia was 27%, 31% and 42% respectively.

The Group's products were mostly accepted by the market while the Group proactively expanded the market penetration, especially the Indian and Asian markets. Since the population in these countries was huge, the market demand was enormous and brought forth greater earnings should the Group enlarge the market share. In addition, the Group also strove to develop the Eastern European and Russian markets. Orders received from these areas became stable and the Group will further enlarge the market share in these countries in the future.

During the year, the Group maintained close contact with the customers in order to strengthen mutual understanding and to acquire opinion from the customers. As such, the Group could actively revert to their needs and provide with better quality of products and services.

### FUTURE STRATEGIES

Looking ahead, the Group will grasp more potential markets, strengthen R&D capabilities and realize product diversification. The Group will provide products of excellent capabilities to respond to the ever-changing market needs and to continue the implementation of stringent quality and cost control measures. Together with the comprehensive management system and cost control policy, the Group is able to improve product quality and productivity and thus strengthen the Group's advantage in the industry.

The Group will actively seize the market and customer needs and develop more innovative and high capability products. Apart from the desktop telephones and multi-functional products, the Group will also produce potential products. Meanwhile, in order to satisfy the ever-changing needs of the customers, the Group will dedicate to improve the capability and design of the existing products, as well as to produce creative design and color for use in the product casings. The management believes that capitalize on the Group's guarantee on product quality and management policy, as well as the professional and experienced technicians and R&D specialists, substantial impetus could be brought to the Group.

**NUMBER AND REMUNERATION OF EMPLOYEES**

At 31 December 2002, the Group had approximately 6,000 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. 48,000,000 share options have been granted to certain directors of the Company and employees of the Group up to the date of this annual report.