

Management Discussion and Analysis

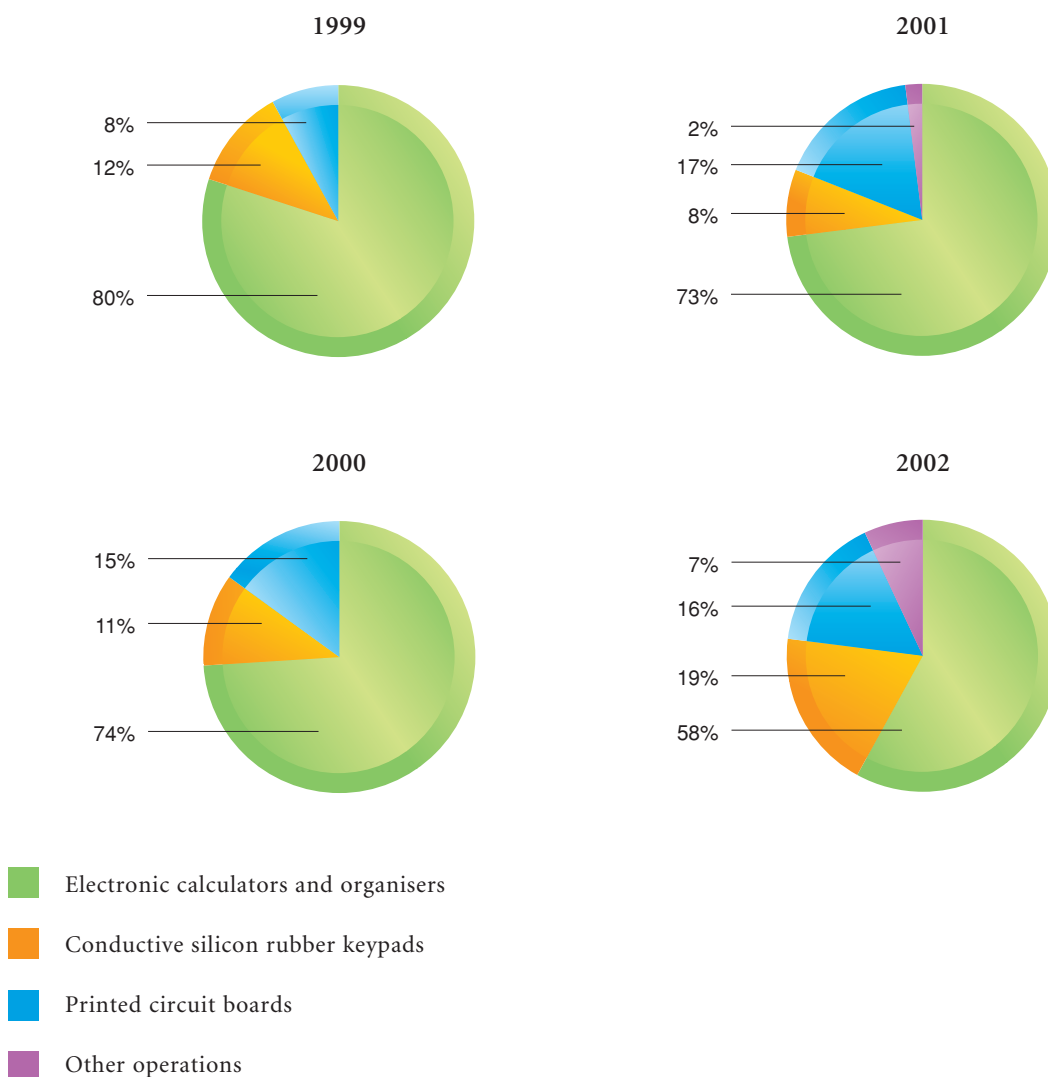
BUSINESS AND OPERATIONAL REVIEW

Despite the less favourable market conditions over the past year, the Group has made significant progress in ensuring that the operations remained competitive. The Directors will continue to focus on improving the sales and enhancing the quality of products, while at the same time building up the research and development capabilities and improving the facilities management in terms of cost and productivity.

For the year ended 31 December 2002, the Group recorded a turnover of approximately HK\$554,548,000, representing an increase of approximately 5.5 per cent. as compared with approximately HK\$525,527,000 in 2001.

Net profit attributable to shareholders has also increased by approximately 31.1 per cent. to approximately HK\$8,087,000 (2001: approximately HK\$6,168,000).

TURNOVER



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SEGMENTAL ANALYSIS

Electronic calculators and organisers

During the year under review, the Group continued to focus on the sales of electronic calculators and organisers under the branded customers located throughout Japan, Europe and America. The Group moves forward with a strategy that combines proven excellence in product development and cost-effective manufacturing with a new customer-centric approach.



For the year ended 31 December 2002, the turnover derived from sales of electronic calculators and organisers decreased by approximately 16.5 per cent. to approximately HK\$321,043,000 (2001: approximately HK\$384,291,000), representing approximately 57.9 per cent. of the turnover of the Group. In the year under review, the market was extremely tough. Price competition was fierce as traders and suppliers slashed prices to liquidate their inventory.

The management focus on tight cost control, mainly contributed by the raw materials and components, which was substantially offset by the decrease in turnover during the year under review.

In line with our strategy to focus on profitability, the gross profit margin rose by approximately 3.4 per cent. to approximately 19.4 per cent. (2001:

approximately 16 per cent.). Demand in Europe and America remained strong and in line with their economic growth but prices were subdued. Given that the recovery is under way, it is expected that the turnover will continue to grow in the year of 2003 and the profitability will continue to improve.

As a result, the operating profit for the year ended 31 December 2002 amounted to approximately HK\$13,263,000 (2001: approximately HK\$6,531,000).

In the coming year, the Group will continuously adopt its business strategy for customer diversification, high value added production, effective cost control and quality management.

Conductive silicon rubber keypads

Along with the successful acquisition of Dongguan Tehsutec in 2002, for the year ended 31 December 2002, the turnover derived from sales of conductive silicon rubber keypads significantly increased by approximately 158.5 per cent. to approximately HK\$105,682,000 (2001: approximately HK\$40,881,000) representing approximately 19.1 per cent. of the turnover of the Group.

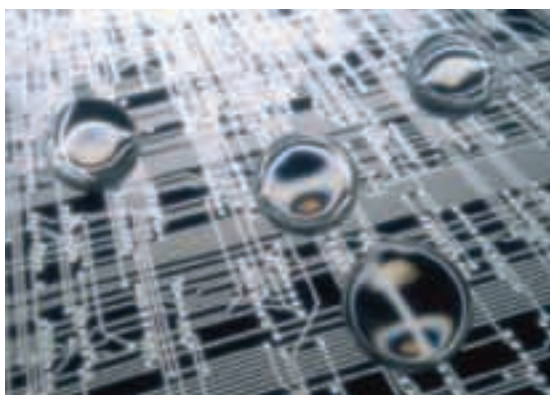
Through this strategic acquisition, the Group explored new business opportunities to expand its customer base and serve a broad range of well known customers in Japan and the PRC. The effort was rewarded as the contribution to operating profit increased to approximately HK\$8,524,000 (2001: approximately HK\$4,094,000).

The Group's conductive silicon rubber keypads are mainly made for electronic calculators, databanks, electronic organisers, mobile phones and remote controls. Looking ahead, the Directors believe that the acquisition of Dongguan Tehsutec will continue to give the Group the opportunity to better develop the conductive silicon rubber keypads' business and the acquisition will contribute positively to the revenue growth of the Group in the coming year.

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Printed Circuit Boards (“PCB”)

For the year ended 31 December 2002, the turnover of PCB has slightly decreased to approximately HK\$86,583,000 (2001: approximately HK\$88,148,000), representing approximately 15.6 per cent. of the turnover of the Group.



The management focused on stringent cost control on raw materials, the reward of which was offset by the slight decrease in turnover. Accordingly, the operating profit was maintained at approximately HK\$4,130,000 (2001: approximately HK\$3,402,000).

During the year under review, the Group spent approximately HK\$7,884,000 for the acquisition of additional machineries. Upon the acquisition of additional machineries, the Group has further carried out about one-third of the work which used to be carried out by outside subcontractors and accordingly, the subcontracting fees were reduced to approximately HK\$5,412,000 for the year ended 31 December 2002 (2001: approximately HK\$6,946,000).

In the coming year, the Group will continue to adopt its business strategy of stringent cost control and consolidation of its key client base. The Directors believe that the future performance and prospects of PCB business are optimistic.

Other operations

Electronic toys products



In line with the Group's ongoing efforts in diversifying its products and capturing new business opportunities, turnover derived from a new business segment of electronic toys products, such as infant toys and electronic learning products, recorded approximately HK\$20,530,000 for the year ended 31 December 2002 (2001: approximately HK\$533,000). As these product lines are still at the investment stage, their contribution remains small in the financial year of 2002, inevitably affecting our bottom line.

For the year ended 31 December 2002, the electronic toys segment recorded an operating loss before taxation of approximately HK\$2,298,000 (2001: nil).

Although the investments in new products and business lines have clearly affected the Group's earnings this year, the Directors believe that they are a sound investments in exciting new areas of growth that will sustain returns to shareholders in the coming years, as earnings from new businesses come in.

Cordless telephone products

For the year ended 31 December 2002, the turnover derived from the cordless telephone segment recorded approximately HK\$20,710,000 (2001: approximately HK\$11,674,000).

During the year under review, the Group incurred development costs amounting to approximately HK\$9,360,000 payable to Arkon for the development

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of new DECT phones and telecommunication products in the cordless telephone segment (2001: approximately HK\$9,360,000). Pursuant to the agreement with Ascalade Holdings dated 14 August 2002, the Group still owns the telecommunication technology on the DECT phones and agreed to grant Ascalade Group a right to use such technology for the remaining useful life until December 2003. Accordingly, the Group will provide an amortisation on the incurred development costs on a straight line basis over its estimated useful life of two years.

As a result, for the year ended 31 December 2002, the cordless telephone segments recorded an operating loss before taxation of approximately HK\$9,322,000 (2001: loss from operations of approximately HK\$7,520,000).

Share of result of an associate, Ascalade Group

To sustain the growth momentum, the Group has established an associate, Ascalade Holdings, and owns 49 per cent. of the equity interest in Ascalade Holdings. Ascalade Holdings is principally engaged in the design, manufacture and distribution of cordless phones and other telecommunications products for the markets in Hong Kong, Europe and North America.

Accordingly, the Group entered into an agreement with Ascalade Holdings on 14 August 2002, pursuant to which the Group transferred its business and certain assets of its cordless telephone segment amounting to approximately HK\$16,684,000 to Ascalade Group. After the establishment of Ascalade Holdings, the telecommunication business was transferred to Ascalade Group. As consideration, Ascalade Group agreed to pay the Group a compensation fee in the sum of approximately HK\$6,326,000 to cover the operating costs in the previous telecommunication operation.

Through such establishment of Ascalade Group in August 2002, turnover derived from the above businesses and new products, such as Parafone, 1.8 GHz and 2.4 GHz cordless phones, recorded approximately HK\$99,423,000 in the second half of the year 2002. The effort was rewarded as the share of positive contribution to the Group's operating

profit amounted to approximately HK\$124,000 (2001: nil).

Supported by a capable and dedicated management team, Ascalade Group is well positioned to take on further challenges and opportunities in full confidence and the Directors believe that the future performance and prospects of the telecommunication business are optimistic.

Overall

For the year ended 31 December 2002, the overall gross profit margin of the Group increased by approximately 2.3 per cent. to approximately 18.0 per cent. (2001: approximately 15.7 per cent.).

The Directors maintain a strict and prudent valuation control on property, plant and equipment. During the year under review, certain models of moulding equipment were considered obsolete and accordingly, the amount of approximately HK\$8,047,000 (2001: approximately HK\$2,597,000) were being written off.



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With a disciplined financial management policy, during the year under review, certain models of raw materials and finished goods amounted to approximately HK\$316,000 (2001: approximately HK\$9,068,000) were recorded as the allowance for obsolete and slow moving inventories of the Group.

Nevertheless, consolidated profit attributable to shareholders for the year ended 31 December 2002 amounted to approximately HK\$8,087,000, representing an increase of approximately 31.1 per cent. over 2001.

CAPITAL STRUCTURE

Shareholders' equity increased to approximately HK\$321,183,000 as at 31 December 2002 from approximately HK\$309,135,000 as at 31 December 2001. As at 31 December 2002, the short term and long term interest bearing debts to shareholders' equity was approximately 26.4 per cent. (2001: approximately 22.3 per cent.).

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operation by internally generated 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 2002, the Group had fixed deposits and cash balances aggregated to approximately HK\$68,718,000 (2001: approximately HK\$80,984,000).

The Group currently has composite banking facilities amounted to an aggregate sum of approximately HK\$209,948,000 (2001: approximately HK\$159,800,000) with various banks. Out of the trade and overdraft banking facilities of approximately HK\$151,069,000 (2001: approximately HK\$106,529,000) in Hong Kong granted to the Group, approximately HK\$5,417,000 (2001: approximately HK\$4,624,000) has been utilised as at 31 December 2002. The term loan banking facilities in the PRC amounted to approximately HK\$58,879,000 (2001: approximately HK\$53,271,000). All the term loan banking facilities in the PRC are denominated in Renminbi.

In 2002, the current ratio maintained at approximately 1.5 (2001: approximately 1.5) based on current assets of approximately HK\$251,534,000 and current liabilities of approximately HK\$169,189,000 and the quick ratio was approximately 1.1 (2001: approximately 1.0).

As at 31 December 2002, total indebtedness including bank borrowings and obligations under finance leases contracts amounted to approximately HK\$84,855,000 (2001: approximately HK\$69,072,000), representing approximately 26.4 per cent. of the total shareholders' equity (2001: approximately 22.3 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.

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FOREIGN EXCHANGE RISK MANAGEMENT

Most of the Group's cash balances are deposited in Hong Kong dollars or the United States dollars with major banks in Hong Kong.

Apart from the above, most of the Group's assets and liabilities, revenues and expenditures are either in Hong Kong dollars or the United States dollars. Therefore, the Directors consider the exposure risk to foreign currency fluctuations minimal.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2002, the Group employed approximately 6,424 full time employees, of which 63 were based in Hong Kong and 6,361 were based in the PRC. The Group remunerated its employees on the basis of industry's practice and the performance of the individual employee. Employees may also participate in the share option scheme of the Company.