

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Due to the outbreak of Severe Acute Respiratory Syndrome ("SARS") and Iraq war, the global economy had experienced severe difficulties during the first half of the year. The Group's business was adversely affected because our target markets were mainly in India, the Middle East and other Asian countries. For the Period, the Group recorded turnover of approximately HK\$187 million, while net profit from ordinary activities attributable to shareholders amounted to approximately HK\$25 million, representing a decline of 34.5% and 31.1% respectively compared to the corresponding period last year. The decrease was mainly attributable to the reduction in orders from Asian regions especially the Indian market. Since the outbreak of SARS, the construction of our new factory premises, which was expected to be finished by June 2003, was delayed by 3 months and finished in September 2003. The new factory premises will further enhance our production capacity and upgrade the Group's ability in manufacturing different types of new products such as multi-functional watches and household telephones.

The Group is principally engaged in the design, manufacture and sale of calculators and other electronic products under the brand name of KADIO, TAKSUN and ISA. In order to increase our product variety, the Group had launched new products such as multi-functional watches and household telephones during the first half of the year. The Group launched about 11 models of multi-functional watches and 14 models of ISA telephones during the Period. As these new products were very attractive to our customers in terms of quality and price, the Group will continue to develop more models of these new products to meet the huge market demand. At 30 June 2003, the Group produced more than 250 different types of calculators with various special features, such as calendar and talking functions.

The Group's production facilities are located in Putian County, Fujian Province, the PRC, with current daily production capacity running at approximately 290,000 units. In view of the successful launching of multi-functional watches and household telephones during the Period, the Group plans to and expand our watches and telephone production in the new factory premises which were finished in September 2003.

The Group has maintained a strong financial position with bank and cash balances amount to approximately HK\$90 million at 30 June 2003.

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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 2003, the Group had no interest-bearing bank loans (31 December 2002: HK\$18.7 million). At 30 June 2003, 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 2003, 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 2003.

At 30 June 2003, the Group had current assets of approximately HK\$225.2 million (31 December 2002: HK\$218.2 million) and current liabilities of approximately HK\$139.1 million (31 December 2002: HK\$124.4 million). The Group's current ratio slightly decreased from approximately 1.8 times as at 31 December 2002 to approximately 1.6 times as at 30 June 2003. The Group had total assets of approximately HK\$349.2 million (31 December 2002: HK\$321.1 million) and total liabilities of approximately HK\$139.4 million (31 December 2002: HK\$124.9 million), representing a gearing ratio (expressed as total liabilities to total assets) of approximately 39.9% as at 30 June 2003 as compared with approximately 38.9% as at 31 December 2002.

Prospects

Following the end of SARS and Iraq war, the Group's business was gradually recovered. The management of the Group considered that their effect was only short-term and the Group's business will turn back to rapid growth thereafter. For the new products like multi-functional watches and telephones, the Group will develop more models to increase our product variety. In addition, the Group will continue to strengthen its controls on product quality and production with an aim to improve its operating efficiencies and its control on production costs, thus, enhancing the Group's competitiveness.

In addition to its existing markets, the Group will promote ISA products to the PRC, Eastern Europe, South America and markets where there are vast potential. The new ISA telephones and calculators are expected to generate promising returns for the Group within a short period of time. The Group is confident that the successful launching of new products and active expansion in its geographical distribution can further extend its market coverage.

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Prospects *(continued)*

New factory premises and an office building adjacent to the Group's existing production plant were finished in September 2003. To cope with the production of multi-functional watches and household telephones, the Group will invest and set up more telephone and watches production lines in these new factory premises to capture the large market demand.

Number and remuneration of employees

At 30 June 2003, the Group employed approximately 7,200 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 may, at its discretion, grant options to the Group's employees.

DISCLOSURE OF ADDITIONAL INFORMATION

Directors' interests in shares and warrants

At 30 June 2003, the interests of the Directors in the share capital and warrants of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, were as follows:

Ordinary shares of the Company

Name of Director	<i>Notes</i>	Nature of interest	Number of ordinary shares held
Mr. Lam Ping Kei	1	Corporate	702,000,000
Ms. Wong Choi Fung	2	Corporate	378,000,000