

The year 2002/03 was a challenging time for the entire commercial community in Hong Kong and Greater China as business activities came to a virtual halt from March to June 2003 during the devastating outbreak of the Severe Acute Respiratory Syndrome ("SARS"). The epidemic dealt a heavy blow to the already fragile economy in Hong Kong and overseas customers

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were reluctant to make buying trips or close business orders with manufacturers in Hong Kong. Although SARS was largely contained by the end of June 2003, signs of a revival in business activities started to emerge towards the third quarter of 2003.

Internationally, buyers' confidence in the retail market was also affected by war on Iraq and this had cast a negative impact on the Group's performance as price pressure escalated under such unfavourable market situation.

However, the management is pleased to report an increase in overall sales volume despite the

difficult times brought by unforeseeable environmental factors. This was largely attributable to the Group's operating and management efficiency derived from production scale. As one of the largest manufacturers of consumer electronic products and components in Asia, the Group is a lot more resilient to adverse situations than its peers, thanks to years of dedicated efforts in consolidating the fundamentals.

Despite an increase in overall sales volume, there was a slight decrease of HK\$2 million in turnover during the year under review, largely because of mounting market price pressure. Sales of core products such as electronic calculators and liquid crystal displays ("LCD") were most encouraging with an increase of 3.0% and 14.3% respectively.

This accomplishment reflected the management's determination and dedicated efforts to sustain its industry leading position and retain customers at a very adverse market environment. It is the management's strong belief that consolidating the Group's core strengths and customer base are top priorities at difficult times, as such assets are the powerful springboard that can facilitate the recovery process as soon as the market starts to turn around.

Nevertheless, weak market demands and sluggish commercial activities had led to severe price competition and this explained a 1.1 percentage-point drop in gross profit margin.

The Group continued to step up its product research and development (R&D) initiatives during the year, and spruce up its competitive strength in technological innovation, a universally recognised growth driver in the industry. As a leading Mainland China-based manufacturer of consumer electronic products and components, the Group fully acknowledges the critical importance of product designs and functionalities in advancing sales and profit,

commanding more favourable profit margins, and also maintaining its industry leadership.

The year 2002/03 saw the launch of newly developed products such as corded telephones with touch panel design and functions under the brand name "S.L.T", touch screen data bank, electroluminescent watches, and products of integrated multiple functionalities, including English-Chinese dictionary, organiser, calculator and calendar. The Group has already obtained all necessary quality accreditations for the new corded phone production line to facilitate export sales rollout. Development efforts to expand our product line-up of waterproof watches with innovative designs are also actively in progress. The new watch series has recently been introduced to the market with excellent responses. The new corded telephone and watch products will be the Group's growth drivers in the coming year.

The steady stream of innovative products with enhanced functionalities indicates the tremendous scalability of the Group's expertise in the manufacture of consumer electronic products and components, and the optimized capabilities of its vertically integrated production facilities in Mainland China. In fact, the Group also added a new STN-LCD line in last year for the manufacture of larger 14" x 16" LCD panels that allow more flexible applications on higher-ended products. These advantages are unique to the Group that will continue to bring value to shareholders.

In view of strong sales order books that go as far as April 2004, the Group has already decided to add two more STN-LCD lines within the coming financial year. Initial trial run is scheduled in May 2004. The new additional lines will be installed in the existing production premises and are designed to produce LCD of higher precision for application on more sophisticated products.

The Group will continue to focus on powering business growth through product innovation, market diversification, enhanced operating efficiency, disciplined manufacturing management, and further expansion in production capacity. The alignment of operations under distinctive business entities, implemented in the previous financial year, helped enforce stricter cost controls, reduce operating expenses, and improve overall efficiency. We will continue to closely monitor critical management segments that include inventory, delivery logistics, defective rate control, research and development, and production management, so as to further advance our leading position in the consumer electronics industry.

The Group succeeded in minimizing the negative impact from SARS and other unfavourable external factors, and further enhanced its internal strengths during the year under review. Our facilities were already operating in full capacity in the 2002/03 financial year. As our strong sales order books indicate continued robust demand in the coming year, we will continue to commit investments to expand our production capabilities and capacities to further sustain and enhance our industry leadership. As the market started to show signs of a revival, we firmly believe that the Group will enjoy favourable growth and bring further benefits to shareholders in the coming financial year. I would like to thank all of our staff and business partners for their dedication and perseverance during the year.

**Wong King Ching, Helen**  
*Chairman*

Hong Kong  
20 January 2004