

BUSINESS REVIEW

During the year ended 31 December 2003, the unexpected SARS outbreak and Iraq war deterred the overseas buyers to place their orders in the first half year. Nevertheless, the Group's order placement of electronic products picked up steadily since the second half year thanks to the rebound in global and PRC economy, coupled with the accumulated purchasing power of overseas buyers. The Group's marked improvement in the second half year was reflected by the increase in the turnover of 8.0% compared with the previous year. During the year under review, the Group recorded turnover and net profit attributable to shareholders of HK\$421.7 million and HK\$56.9 million, down 16.1% and 8.8% respectively (2002: turnover of HK\$502.8 million and net profit attributable to shareholders of HK\$62.4 million).

The Group's gross profit recorded HK\$95.6 million (2002: HK\$113.8 million), a 16.0% decrease compared with previous year. The gross profit margin stood steadily at 22.7% (2002: 22.6%). Despite the increased competition of consumer electronic products, the Group will continue to adopt strict cost control measures and diversify into value-added consumer electronic products, including TN-LCD, telephones and watches, to enhance the Group's overall gross profit margin.

Electronic Calculators

During the year under review, the sale of electronic calculators remained as the core revenue generator of the Group, accounting for HK\$335.5 million, 79.6% of the Group's total turnover (2002: sale amount of HK\$452.2 million, 89.9% of the Group's total turnover). The drop in the sale of electronic calculators was mainly attributable to the SARS outbreak and Iraq war in the first half year. The sale of electronic calculators staged gradual increase since the economy recovery in the second half year. During the year under review, 130 new types of electronic calculators equipped with various functions and value-added features were introduced to cater to the market demand. Production volume of electronic calculators stood at 8.5 million pieces per month and the varieties increased to more than 380 types. Such well-established production scale reaffirms the Group's leading position in the manufacturer of electronic calculators in the PRC.

Other Electronic Products

The Group strived to develop a wide range of value-added consumer electronic products thanks to the burgeoning demand in the global market. During the year under review, 11 production lines of multifunctional and waterproof watches and 6 lines of household telephones were established to produce 43 and 24 types of multifunctional and waterproof watches and household telephones respectively, which were mainly targeted to developing countries. The sale of multifunctional and waterproof watches and household telephones recorded HK\$7.9 million and HK\$10.4 million respectively, accounting for 1.9% and 2.5% of the Group's total turnover. The Group plans to boost the sale and production volume of multifunctional and waterproof watches, which are of relatively higher profit margin, to give a lift to the Group's revenue.

Liquid Crystal Display (“LCD”)

During the year under review, the sale of TN-LCD amounted to HK\$34.4 million, accounting for 8.2% of the Group’s total turnover (2002: sale amount of HK\$20.8 million and 4.1% of the Group’s total turnover). The Group flexibly adjusted the sales strategy of TN-LCD and distributed part of the TN-LCD to other manufacturers to broaden the revenue sources.

Promotion and Development

During the year under review, the Group continued to strengthen its foothold in the existing markets, but also actively expanded into other prospectively high-growth markets to enlarge the Group’s global presence. India was still the Group’s largest market, accounting for HK\$101.6 million, down 24.8% compared with HK\$135.1 million in the previous year. The Group’s turnover in the Asia market, excluding Hong Kong, dropped 18.5% to HK\$119.6 million due to the SARS outbreak (2002: HK\$146.8 million), accounting for 28.4% of the Group’s total turnover. The Group also actively penetrated into Africa, Western Europe, Middle East, North and South America and Russia markets to further broaden the revenue sources.

During the year under review, the Group manufactured a wide range of electronic products to meet the varied market demand. The Group had strengthened the sales and marketing initiatives to boost the sale of ISA branded electronic calculators, watches and household telephones, which had received encouraging market response. During the year under review, the Group had participated in a number of worldwide exhibitions and trade fairs to showcase the Group’s latest electronic consumer products.

Corporate Development

During the year under review, the Group had completed the Phase II factory expansion project which included the construction of two factory premises and one office and staff quarter complex in Putian, Fujian Province, the PRC to further enhance the production capacity, by September 2003. The total area of the enlarged factory premises approximated to 70,000 sq. m. and the production scale will availably be doubled in the future. 11 production lines of multifunctional and waterproof watches and 6 production lines of household telephones were added and the maximum monthly production capacities were 600,000 and 200,000 pieces respectively. Approximately 100,000 sq. m. of area was also reserved adjacent to the Group’s factory in Putian, in readiness of future expansion plan to boost the production volume.

The increase in production capacity not only accommodates the expected increasing order in electronic products, but also poses a complementary effect to the expanded vertical production line to enhance operational efficiency. By the end of 2003, three new electronic calculators sub-factories engaged in the production of circuit board, soft keypad and paper packaging carton were established within the new factory premises to further minimize the Group’s reliance on external suppliers, which in way to enhance the profit margin to sharpen the Group’s competitive edge. The expanded vertical production line can help the Group effectively monitor the quality and inventory level of electronic products, which can help further enhance the product quality.

MANAGEMENT DISCUSSION AND ANALYSIS

Employees and Remuneration Package

As at 31 December 2003, the Group had approximately 8,000 employees (31 December 2002: approximately 6,000 employees). The increase in employees was attributable to the addition of employees in the new factory to keep pace with the increased production volume and varieties of electronic products. The remuneration package was based on their work performance, experience and the industry practice. The Group also participated in retirement benefits schemes for its staff in Hong Kong and the PRC.

FINANCIAL REVIEW

Liquidity and Finance Resources

During the year under review, the Group generally financed its operations with internally generated resources and banking facilities provided by its principal bankers in Hong Kong and the PRC. As at 31 December 2003, the Group did not have any interest-bearing bank borrowings. (31 December 2002: HK\$19.4 million). The Group's banking facilities were secured by (i) first legal charges on the leasehold land and the buildings of the Group in the PRC; and (ii) corporate guarantees given by the Company and certain subsidiaries of the Company.

As at 31 December 2003, 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 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 2003.

As at 31 December 2003, the Group had current assets of approximately HK\$243.2 million (31 December 2002: HK\$218.2 million) and current liabilities of approximately HK\$153.0 million (31 December 2002: HK\$124.5 million). The Group's current ratio had decreased from approximately 1.8 times as at 31 December 2002 to approximately 1.6 times as at 31 December 2003. The Group had total assets of approximately HK\$396.1 million (31 December 2002: HK\$321.1 million) and total liabilities of approximately HK\$153.1 million (31 December 2002: HK\$124.9 million), representing a gearing ratio (expressed as total liabilities to total assets) of approximately 38.7% as at 31 December 2003 as compared with approximately 38.9% as at 31 December 2002.

Capital Expenditure

At the end of September 2003, the Group had completed the Phase II factory expansion project. Total expenditures on this expansion project up to the end of the year end 31 December 2003 including the construction cost and the purchase of new machinery installed amounted to approximately HK\$65.0 million. The new factory premises enhance the Group's production capability in both areas of electronic products and LCDs for future two to three years.

PROSPECTS

Looking ahead, the Group will adhere closely to its corporate motto "Founded on Ethic and Rely on Trust" and strive to enhance the production volume and operational efficiency backed by its vertical production line. The Group will also continue to move upwards in the value chain to expand into value-added electronic consumer products.

Owing to the mounting pressure on the shortage of labour supply and the increasing wages, the Group expanded its geographic presence in the PRC to purchase a piece of land with area approximately 850,000 sq.m. in Yiwu, Zhejiang Province for the establishment of the new factory premises and office building. The construction was expected to commence by the end of April 2004. Yiwu is well-acclaimed as the international marketplace of consumer goods and the procurement centre for overseas buyers, which unfold tremendous business opportunities for the Group to tap on in the PRC market. Yiwu is also well-contained with a large pool of labour resources with a relatively lower labour cost. This can help further enhance the Group's production efficiency of consumer electronic products to maintain its competitive advantage.

The Group's production capacity of TN-LCD has nearly reached maximum capacity. In anticipation of the mounting demand on STN-LCD in the global market, the Group will invest a minimum of HK\$30 million to construct the STN-LCD production lines in 2004, which are expected to commence production in second quarter of 2004. The expected production volume of STN-LCD will be approximately 40,000 units which will be mainly applied in a wide range of consumer electronic products, including watches, PDAs and mobile phones, etc. The Group will also flexibly distribute the STN-LCD to other manufacturers to broaden the revenue sources. The Group expects that STN-LCD will be a key revenue growth driver due to its higher price and margin. STN-LCD will be expected to take on increasing importance to the Group's total turnover.

In replica of the success of Euro converters in 2002, the Group will step up its momentum in market diversification to broaden the revenue sources. A wider variety of electronic products will be developed to cater to the different market needs and extend the Group's reach in the overseas market. The Group will also actively participate in the worldwide exhibitions and look for collaboration opportunities with overseas buyers to jointly manufacture different consumer electronic products. This can help underpin the Group's reputation in the overseas market. Apart from the well-established presence in the developing countries, the Group has been recently in talks with manufacturers in the US and European markets. The Group will also eye into the PRC market and plan to further substantiate its market presence. Given the enormous production volume of consumer electronic products, as well as the concerted efforts in product and market diversification, the Group is well-positioned to capture the tremendous market potential and cement its leading position in consumer electronic products.