

# Management Discussion and Analysis

## OPERATIONS REVIEW

The following highlights the Group's results for the year ended 31 December 2003.

- Turnover increased by 35.4% from the prior year to HK\$271.8 million for the year
- Gross profit margin has been improved from 16.4% for 2002 to 21.3% for the year
- Profit from operating activities before the finance costs and the share of the results of an associate was HK\$15.8 million, improving by HK\$12.2 from last financial year
- Finance costs increased by HK\$2.9 million from last year to HK\$5.8 million
- Share of loss of an associate was HK\$4.3 million
- Net profit for the year was HK\$3.5 million, improved by 2.4 times as compared to last year

The Group's electronic and related components and parts segment comprises manufacture and sale of keypads, synthetic rubber and plastic components and parts, and liquid crystal displays. In the year under review, sales turnover of this segment has increased by approximately 32.1% as compared with the previous financial year. On the other hand, the consumer electronic product segment has achieved approximately 39.6% increase in sales turnover from the previous year. The overall increase in the Group's turnover is mainly attributable to the increased sales turnover related to new products with new value added features and, to both existing and new customers.

The improvement in the gross profit margin for the period under review was due to economies of scale and introduction of new products with value added features.

With the increases in both turnover and gross profit margin, the group's operating profit before the finance costs and the share of the results of an associate improved remarkably by HK\$12.2 million.

The Group's finance costs increased by HK\$2.9 million, of which approximately HK\$2.4 million interest is related to the loan notes and convertible loan notes issued during the year for raising funds to finance our investment in the associate.

The Tianjin plant of our associated company started its commercial production after approximately nine-month period for its initial set up. The loss as reported by the associate company included a large amount of pre-operating expenses incurred during the year.

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## LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cashflows and banking facilities provided by its principal bankers and other financial institutions in Hong Kong.

The Group currently has aggregate composite banking facilities of approximately HK\$79.8 million with various banks and financial institutions. The total borrowings from banks and financial institutions include long term loans, finance leases, overdrafts, import and export loans, amounted to approximately HK\$52.2 million as at 31 December 2003, of which HK\$45.6 million is repayable in 2004.

The Group's financial position remains healthy. At the balance sheet date, the aggregate balance of cash, cash equivalents and pledged deposits of the Group amounted to approximately HK\$29.0 million.

The Group's borrowings are mainly on a floating rate basis and are mainly denominated in either Hong Kong dollars or United States dollars. These match with the principal currencies in which the Group conducts its business. Therefore, the Group does not have any significant foreign exchange risk.

The gearing ratio on the basis of total debts to total assets as at 31 December 2003 is 57.3% (2002: 46.0%)

## CHARGE ON THE GROUP ASSETS

Certain bank borrowings are secured by fixed charges over the Group's medium term leasehold land and buildings with aggregate net book value of HK\$22.45 million and bank deposits amounting to approximately HK\$8.2 million.

## CONTINGENT LIABILITIES

Except for corporate guarantees given to banks and other financial institutions in relation to facilities granted to the subsidiaries, the Company has no other contingent liabilities as at the balance sheet date.

## CAPITAL STRUCTURE

As at 31 December 2003, the Company had approximately 250 million shares in issue with total shareholders' funds of the Group amounting to approximately HK\$104.7 million.

Pursuant to the share option scheme of the Company, the Board of Directors granted share options to certain senior executives and employees of the Group. Details of the share options granted and are remaining not exercised are disclosed in note 31 to the Financial Statements. The exercise in full of these share options would result in the issue of 13.0 million additional shares and proceeds of approximately HK\$2.1 million.

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## FUND RAISING

During the year on 3 March 2003, the Company entered into separate subscription agreements with several independent investors, pursuant to which these investors agreed to subscribe for unlisted convertible notes issued by the Company with principal amount aggregating US\$1,282,500 (equivalent to approximately HK\$10,003,500). These convertible notes bear interest at 2% per annum and are convertible into shares of the Company at an initial conversion price of HK\$0.40 per share, subject to adjustment, during the period commencing from 17 March 2005, up to and including the day immediately prior to the maturity date of the convertible note. The maturity date of the convertible notes is 16 June 2005. Each of the holders of the convertible notes can on demand request the Company to redeem the whole or part of the convertible notes after 16 March 2004 with an interest at 15% of the principal amount compounded annually from the date of issue until the relevant due date for redemption. At the maturity date, the Company shall redeem all the then outstanding convertible notes at 132.25% of their face value.

Under the same agreements, the investors have also agreed to subscribe for unlisted loan notes issued by the Company with principal amount aggregating US\$1,282,500 (equivalent to approximately HK\$10,003,500). These loan notes bear interest at 5% per annum, but are not convertible into shares of the Company. The maturity date of the loan notes is 16 March 2005. The Company has the option to redeem the entire loan notes on 17 March 2004 at 108% of the loan notes' face value. Moreover, each of the holders of the loan notes can on demand request the Company to redeem the whole or part of the loan notes after 16 March 2004 at 114% of their face value. At the maturity date, the Company shall redeem all the then outstanding loan notes at 114% of their face value.

The net proceeds of US\$2,529,744 (equivalent to approximately HK\$19,732,000) from the issue of these notes have been used to finance the Group's investment in the associate YOUREAL TTI Limited.

Subsequent to the balance sheet date on 17 March 2004, the Company exercised its option to redeem the whole of the loan notes of US\$1,282,500 at 108% of the loan notes face value.

## EMPLOYEES

As at 31 December 2003, the Group available to it a total workforce of approximately 3,100 of which approximately 60 were based in Hong Kong, approximately 20 were based in Singapore and approximately 3,020 were based in the PRC.

The Group remunerates its employees largely based on the prevailing industry practice and labor laws. Since December 1996, the Company has adopted a share option scheme for the purpose of providing incentives and rewards to the employees of the Group.

Moreover, under the Mandatory Provident Fund Scheme Ordinance of Hong Kong, the Group has operated a defined contribution Mandatory Provident Fund retirement benefits scheme for all its Hong Kong employees. For overseas and PRC employees, the Group is required to contribute a certain percentage of its payroll costs to the central pension scheme operated by the respective local government.