

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

During the period, the Group recorded remarkable performance. The SARS outbreak in the first half of last year only posed a one-off impact on the Group's results. Given the Group's growth momentum in the second half of 2003, in addition to the increased production volume, the expanded vertical production line and the diversification into a wide array of value-added consumer electronic products, the Group recorded turnover of HK\$229.7 million, up 23.0% compared with HK\$186.7 million in the corresponding period last year. The Group's profit attributable to shareholders was HK\$50.5 million, up 101.2% compared with HK\$25.1 million in the corresponding period last year. The Group's gross profit increased 49.1% to HK\$60.7 million from HK\$40.7 million in the corresponding period last year. The gross profit margin also increased from 21.8% in the corresponding period last year to 26.4%. The increase in gross profit margin was attributable to the Group's commitment in expanding the vertical production line to reduce the Group's reliance on external supply of components to increase the profit margin of the products. In addition, the increase in the sale of the Group's new products such as multifunctional and waterproof watches, which had relatively higher profit margin, also boosted the Group's overall gross profit margin.

### Electronic Calculators

During the period, the sale of electronic calculators remained as the core revenue generator of the Group, accounting for HK\$157.8 million, or 69.0% of the Group's total turnover. It demonstrated a 4.9% increase compared with HK\$150.5 million in the corresponding period last year. The increase in the sale of electronic calculators was due to the increase in the order of the electronic calculators thanks to the resurgence in the global economy in the first half of 2004.

### Other Consumer Electronic Products

To cope with the enormous demand on consumer electronic products in the global markets, the Group had successfully developed a wide range of value-added consumer electronic products. During the period, the Group's sale of multifunctional and waterproof watches, which were developed in the second half of 2003, recorded strong growth in the markets of the developing countries. It recorded HK\$18.7 million or 8.1% of the Group's total turnover. The sale of household telephones also recorded satisfactory performance, accounting for HK\$17.5 million (30 June 2003: HK\$3.0 million) and representing 7.6% of the Group's total turnover (30 June 2003: 1.6%).

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### Liquid Crystal Display ("LCD")

During the period, the sale of TN-LCD recorded HK\$16.3 million or 7.1% of the Group's total turnover, representing a decrease of 8.4% compared with HK\$17.8 million in the corresponding period last year. The slight drop in the sale of TN-LCD was due to the fact that the Group adopted flexible sale strategy to retain the TN-LCD internally for the Group's electronic calculators to keep pace with the increase in the sale during the period. The ratio of the external sale of the TN-LCD was hence reduced. Since the Group's production capacity of TN-LCD had nearly reached the maximum level, together with the growing demand on STN-LCD across the globe, the Group invested approximately HK\$20.0 million to construct the new STN-LCD production lines during the period which had completed the trial run in June 2004.

### Corporate Development

The Group had purchased a piece of land with an area of approximately 85,000 sq.m. in Yiwu for the establishment of the new factory premises and office building. The construction had commenced on 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 in the PRC market. Also, during the period, the Group invested to increase 10 production lines in Xian You, Putian, which will be focused on the assembling processes of the products. Yiwu and Xian You are both contained with a large pool of labour resources, which have a relatively lower labour cost than that of Putian. This can help reduce the Group's operating expenses and maintain its competitiveness.

### Employees and Remuneration Package

As at 30 June 2004, the Group had approximately 8,900 employees in the PRC and Hong Kong (30 June 2003: 7,200 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 consumer 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 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. As at 30 June 2004, the Group had interest-bearing bank loans of approximately HK\$24.7 million (31 December 2003: Nil), of which approximately HK\$4.7 million was fixed-interest bearing and denominated in Reminbi with maturity within one year. As at 30 June 2004, the Group's banking facilities were secured by corporate guarantees given by the Company and certain subsidiaries of the Company and unutilised bank loan facilities amounted to HK\$30.0 million.

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### FINANCIAL REVIEW

#### Liquidity and Financial Resources *(continued)*

As at 30 June 2004, 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 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 2004.

As at 30 June 2004, the Group had current assets of approximately HK\$258.1 million (31 December 2003: HK\$243.2 million) and current liabilities of approximately HK\$155.5 million (31 December 2003: HK\$153.0 million). The Group's current ratio had increased from approximately 1.6 times as at 31 December 2003 to approximately 1.7 times as at 30 June 2004. The Group had total assets of approximately HK\$445.0 million (31 December 2003: HK\$396.1 million) and total liabilities of approximately HK\$168.9 million (31 December 2003: HK\$153.1 million), representing a gearing ratio (expressed as total liabilities to total assets) of approximately 38.0% as at 30 June 2004. (31 December 2003: 38.7%)

### PROSPECTS

Looking ahead, the Group will continue to strive to enhance the production volume of consumer electronic products and operational efficiency backed by its expanded vertical production line. In addition, the Group will keep on expanding different value-added consumer electronic products to increase the gross profit margin of the Group.

The Group will continue to develop different consumer electronic products to cater to the varied market needs. Apart from actively seizing collaboration opportunities with overseas buyers and participating in worldwide exhibitions, the Group will also open a wholesale outlet in Chinamexmart in Dubai in November 2004. Chinamexmart is a joint project by the PRC and the Dubai governments to develop a merchandise trading platform. This can help the Group to further expand into the Middle East market. In addition, the Group will keep on expanding into the European, US, Japanese, Korean and the PRC markets to broaden the revenue sources and mitigate the negative impact to the Group due to regional outbreak and epidemic.

Given the Group's enormous production volume of consumer electronic products, as well as the concerted efforts in developing value-added consumer electronic products and tapping into prospectively high-growth markets, the Group is set to capture the tremendous global market potential and cement its leading position in the manufacture of consumer electronic products.