

BUSINESS OVERVIEW

During the year under review, the Group recorded turnover of HK\$486.8 million, up 15% compared with HK\$421.7 million last year. The increase in turnover during the year under review was attributable to ongoing efforts to increase the production volume of consumer electronic products, the expanding vertical production line and the sales growth of diversified value-added consumer electronic products. The Group's net profit attributable to shareholders were HK\$100.0 million, posting an increase of 76% compared with HK\$56.9 million last year.

The Group's gross profit during the year under review stood at HK\$123.2 million (2003: HK\$95.6 million), up 28.9% compared with last year. Gross profit margin rose to 25.3% (2003: 22.7%). The rise in gross profit margin was due to the Group's continued pursuit to deepen the vertical production line to realize the benefits on the economies of scale. The sales growth of diversified value-added consumer electronic products also contributed to raise the gross profit margin.



Electronic calculators

Electronic Calculators

During the year under review, the sales of electronic calculators remained as the Group's key revenue driver, posting HK\$358.2 million or 73.6% of the Group's turnover. (2003: sales of HK\$335.5 million and 79.6% of the Group's turnover). The demand of consumer electronic product picked up to pre-SARS level thanks to the revival of global economy in 2004. The Group's business order of electronic calculators also benefited accordingly and maintained healthy growth. During the year under review, a wide range of electronic calculators

with advanced and value-added functions were launched to underscore the Group's position as one of the largest manufacturers of electronic calculators.

Other Consumer Electronic Products

The Group actively enriched its product offering in value-added consumer electronic products which made significant sales growth during the year under review. The sales of multifunctional water resistance watches and household telephones recorded HK\$34.4 million and HK\$27.2 million respectively, contributing 7.1% and 5.6% of the Group's turnover. Their respective sales represented a robust year-on-year growth of 335% and 162% (2003: sales of multifunctional water resistance watches and household telephones were HK\$7.9 million and HK\$10.4 million respectively, or 1.9% and 2.5% of the Group's turnover). During the year under review, the Group spared no efforts in boosting the sales

of multifunctional water resistance watches in developing countries and the products were well-received in these markets. As the multifunctional water resistance watches had a relatively higher profit margin than that of electronic calculators, the Group will further increase the sales and production volume of the former to widen the revenue source.



Multifunctional water resistance watches



Liquid Crystal Display ("LCD")

During the year under review, the sales of LCD was HK\$29.7 million or 6.1% of the Group's turnover (2003: sales of HK\$34.4 million or 8.2% of the Group's turnover).

During the year under review, the Group's newly established STN-LCD production line had completed the pilot run in June 2004. It was expected to commence production for commercial sales in the second quarter of 2005 and it will target external customers.



STN-LCD production line

Promotion and Development

During the year under review, the Group not only maintained its market penetration in the existing markets, but also actively enlarged its sales and distribution landscape. The Group had already penetrated into Asia, Africa, Western Europe, Middle East and North America, etc.. To keep pace with the overseas expansion drive, the Group launched a wide range of products to meet with the customer demand. The Group's three brands, including "TAKSUN", "KADIO" and "ISA", had gained quality trust among the customers. The Group's products were particularly outstanding in the developing countries. The Group also partnered with different prestigious brands to develop consumer electronic premiums to raise the Group's brand awareness in the overseas markets. During the year under review, the Group participated in a number of consumer electronic exhibitions and trade shows to showcase the Group's latest products.

Corporate Development

During the year under review, the Group had set up 20 production lines in Xianyou, Fujian Province. The production area in Xianyou was approximately 50,000 sq.m. and there were approximately 1,400 employees as at 31 December 2004. Xianyou was well-contained with huge labour resources and the wages were relatively lower than that in Putian. This could help the Group to lower the operating cost and maintain its competitiveness.



Moulding sub-factory

The Group also kept on deepening the vertical production line to reduce the overall production cost and enhance the production efficiency. During the year under review, the Group also established the moulding sub-factory and completed the pilot run of STN-LCD production line. Furthermore, the Group was underway to develop the ITO glass production line during the year under review to deepen the vertical production line of LCD. Such move provided the Group with stable supply of components and minimized the inventory level to lower the production cost.



Employees and Remuneration Package

As at 31 December 2004, the Group had approximately 9,300 employees (31 December 2003: approximately 8,000 employees). The increase in employees was attributable to employment of more employees in Xianyou to keep pace with the expanded production volume and increased 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 People's Republic of China (the "PRC").

FINANCIAL REVIEW

Liquidity and Financial 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 2004, the Group had interest-bearing bank borrowings of HK\$50 million (31 December 2003: Nil) which was floating-interest bearing and denominated in Hong Kong Dollars. The Group's banking facilities were guaranteed by corporate guarantees given by the Company and certain subsidiaries of the Company.

As at 31 December 2004, the Group's bank borrowings were denominated in Hong Kong dollars. The Group's purchases were 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 under review, 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 2004.

As at 31 December 2004, the Group had current assets of approximately HK\$300.4 million (31 December 2003: HK\$243.2 million) and current liabilities of approximately HK\$150.8 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 2.0 times as at 31 December 2004. The Group had total assets of approximately HK\$513.8 million (31 December 2003: HK\$396.1 million) and total liabilities of approximately HK\$188.3 million (31 December 2003: HK\$153.1 million), representing a gearing ratio (expressed as total liabilities to total assets) of approximately 36.6% as at 31 December 2004 as compared with approximately 38.7% as at 31 December 2003.

Prospects

Forging ahead, the Group will adhere to its corporate motto "Founded on Ethic and Rely on Trust". The Group will strive to enhance the production volume of consumer electronic products in par with the expanded vertical production line to enhance the operation efficiency. At the same time, the Group will continue to expand into different value-added consumer electronic products.



The Group had already fixed the business development direction in long run to keep pace with the high-growth momentum. The Group strategically expanded the production blueprint to enjoy the geographical advantages and lower labour cost. During the year under review, the Group had committed the plan to build up another huge production base in Huaxian, Henan Province. Production lines of multifunctional water resistance watches and electronic calculators have been established there and commenced operation in the first half of 2005. These greatly increase the production capacity of multifunctional water resistance watches and electronic calculators. Henan Province contains approximately 100 million population and its labour, component and raw material cost are much lower than that in Putian. Such advantages help lower the Group's overall production cost. More than that, Henan Province is situated at the centre of the PRC and it is easily accessible via transportation throughout the entire PRC. This could help the Group to boost the market penetration in the PRC.

The Group believes that the synergy of the geographical advantages in different regions will help alleviate the problems of labour shortage and rising labour cost. The Group will flexibly deploy the production capacity across different production bases. Value-added production processes are to be centered in the Putian production headquarters whereas others will be conducted in Henan and Xianyou which contain huge population.

Moreover, the Group will also stride forward in STN-LCD business and target the electrical appliances and office equipment manufacturers in Japan and Korea. The Group will also keep abreast of the market needs to adjust the internal demand and external sales proportion of TN and STN-LCD to widen the revenue source.

The pilot run of ITO glass production line is expected to be completed by April 2005 and mass production will proceed afterwards. More than that, the Group is in consideration to develop another new production line in 2005 in provision of Chip on Glass value-added service. This can further improve the Group's profit margin and monitor the product quality.

To cope with the diversified market needs, the Group will continue to develop into different consumer electronic products and penetrate into more prospective markets. The Group will attach particular importance to the vast business opportunities in the developing countries. The Group will vault towards the PRC market and collaborate with different prestigious brands to develop consumer electronic premiums to augment its presence in the Europe and the US markets.

The business opportunities of consumer electronic products are immense. The Group will secure vibrant growth by seizing the new business opportunities presented by the global surging demand of consumer electronic products. The Group is fully confident to maintain its high-growth momentum to reach new frontiers in the future.

