

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

During the Period, the Group recorded turnover of HK\$242.6 million, up 5.6% compared with approximately HK\$229.7 million in corresponding period last year. The slightly increase in turnover was attributable to the expansion of production capacity of consumer electronic products from the new production plants in Xianyou and Henan. The Group's net profit attributable to shareholders was HK\$30.4 million, representing a decline of 39.8% compared with approximately HK\$50.5 million in corresponding period last year.

The Group's gross profit during the Period recorded approximately HK\$53.5 million (2004: approximately HK\$60.7 million), down 11.9% compared with corresponding period last year. Gross profit margin dropped to 22.1% (2004: 26.4%). The decrease in gross profit margin was due to the increase in raw materials and labour costs, which drove the production cost up. The new factory in Henan, which had commenced production from February 2005, was at its early stage operation during the Period and more time was required to achieve satisfactory cost efficiency. In fact, high plastic and transportation costs resulted from persistent high oil price during the Period had eroded the gross profit margin. Although it is difficult to estimate that how long will oil price stay at such a high level, the management expects that, while the Henan factory attains benefits on the economies of scale from improving production volume in the second half of this year, it can alleviate the cost pressure of the Group and improve the Group's overall profitability.

Electronic Calculators

During the Period, the sales of electronic calculators remained as the Group's key revenue generator, posting HK\$178.1 million or 73.4% of the Group's total turnover. (2004: sales of approximately HK\$157.8 million and 68.7% of the Group's total turnover). During the Period, 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.

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Other Consumer Electronic Products

The sales of multifunctional water resistance watches and household telephones recorded HK\$17.6 million and HK\$12.1 million respectively, contributing 7.3% and 5.0% of the Group's total turnover (2004: sales of multifunctional water resistance watches and household telephones were approximately HK\$18.7 million and HK\$17.5 million respectively, or 8.1% and 7.6% of the Group's total turnover). The decrease in sales of water resistance watches and telephone was due to the reasons that the Group had put efforts in developing of new types of models and refinement of production line to improve the variety and quality of our products, which temporary affected the production volume.

Liquid Crystal Display ("LCD")

During the Period, the sale of LCD was HK\$15.7 million or 6.5% of the Group's total turnover (2004: sales of HK\$16.3 million or 7.1% of the Group's total turnover). It represented 3.7% decrease compared with corresponding period last year. The slight drop in sales of LCD was due to the fact that the Group adopted flexible sales 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 new STN-LCD line had commenced production in second half of 2004. Trial orders of STN-LCD and HTN-LCD products were received during the Period and we were satisfied with the operating status of the new STN-LCD line. Combined with the Group's further investment in chip on glass and module production line, STN-LCD will become the revenue driver of LCD sales in the future.

Corporate Development

During the Period, the Group had set up 44 production lines in Xianyou and 24 production lines in Henan. Since Henan province contains approximately 100 million population, Henan's vast amount of labour supply, contrary to the the shortage of labour in Fujian province, enables the Group to keep its expansion momentum without suffering from high labour cost in Putian. 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 also kept on deepening the vertical production line to reduce the overall production cost and enhance the production efficiency.

During the Period, the Group also established an ITO glass production line. The pilot run of ITO glass production line was completed in April 2005 and mass production was commenced afterwards to deepen the vertical production line of LCD. ITO glass production can provided the Group with stable supply of components and minimised the inventory level to lower the production cost.

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Employees and Remuneration Package

As at 30 June 2005, the Group had approximately 11,500 employees (30 June 2004: approximately 8,900 employees). The increase in employees was attributable to employment of more employees in Xianyou and Henan 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 Finance 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. As at 30 June 2005, the Group had HK\$41.7 million interest-bearing borrowings (31 December 2004: HK\$50 million) which were floating-interest bearing and denominated in Hong Kong Dollars and unutilised bank loan facilities amounted to HK\$50 million. The Group's banking facilities were secured by corporate guarantees given by the Company and certain subsidiaries of the Company.

As at 30 June 2005, 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 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 2005.

As at 30 June 2005, the Group had current assets of approximately HK\$317.9 million (31 December 2004: HK\$300.4 million) and current liabilities of approximately HK\$188.1 million (31 December 2004: HK\$150.8 million). The Group's current ratio had decreased from approximately 2.0 times as at 31 December 2004 to approximately 1.7 times as at 30 June 2005. The Group had total assets of approximately HK\$552.9 million (31 December 2004: HK\$513.8 million) and total liabilities of approximately HK\$213.1 million (31 December 2004: HK\$188.3 million), representing a gearing ratio (expressed as total liabilities to total assets) of approximately 38.5% as at 30 June 2005 as compared with approximately 36.6% as at 31 December 2004.

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Capital Expenditure

During the Period, the Group had total capital expenditure of approximately HK\$27 million, which included amounts of approximately HK\$4 million and HK\$4 million in construction of new factory premises in Henan and Xianyou respectively. For expansion of production capacity, the Group had incurred approximately HK\$15 million on acquisition of machinery and equipment during the Period.

PROSPECTS

The Group had already set the geographical production expansion strategy as the long term business development direction. During the Period, the Group had built up another huge production base in Henan and it had commenced its operation from February of 2005 to take advantages of lower labour cost. We have already transferring some part of our calculator production to Henan and have planned to move the production lines of multifunctional water resistance watches in a later stage. These can greatly increase the production capacity of multifunctional water resistance watches and electronic calculators.

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 concentrated in the Putian production headquarters whereas others products will be manufactured in Henan and Xianyou which have huge supply of labour.

The Group also explores possibilities to develop another new production line in provision of Chip on Glass value-added service. This can further improve the Group's competitiveness of our LCD business. To satisfy the diversified market needs, the Group will develop different consumer electronic products and penetrate into more prospective markets including the PRC market and Europe and US markets. During the Period, the Group had joined force with one of our customers in developing a series of electronic game cards which were sold in Las Vegas. The electronic game card had launched with marvelous success and had already gained remarkable recognition as a very innovative product. The Group is fully confident that it can successfully explore the new business opportunities to sustain its high-growth momentum in the future.