

# Management Discussion and Analysis

## BUSINESS OVERVIEW

During the year, the Group recorded turnover of HK\$515.9 million, up 6.0% compared with approximately HK\$486.8 million last year. Hinge on our effort in developing new products coupled with the increase in production capacity from our new production plants in Xianyou and Henan. The Group's net profit attributable to shareholders was HK\$39.7 million, representing a decline of 59.8% compared with approximately HK\$98.8 million (restated) last year.

The Group's gross profit during the year recorded approximately HK\$96.3 million, representing a decline of 21.7% compared with approximately HK\$123.0 million (restated) last year. Gross profit margin had dropped to 18.7% (2004 (restated): 25.3%). This is mainly due to the increase in raw materials and labour costs and decline in selling price of electronic calculators. The high plastic cost which was caused by persistent high oil price during the year 2005 added pressure to the Group's and weakened its performance in 2005.

During year 2005, the Group's total production output had increased by approximately 30% compared with last year following the expansion of production facilities in Henan and Xianyou. Although the Group had maintained a higher level of inventory comparing with last year, the management considered the inventory level at 31st December 2005 as acceptable. Since the market condition of the electronic calculators is extremely challenging during the second half of the year, the Group had already implemented various measures such as using more aggressive pricing strategy for selective products to boost the sales and more flexible production scheduling in order to control the stock level.

The new factory in Henan, which commenced its production from February 2005, is mainly responsible for assembling of electronic products. Under the present situation, raw materials and semi-finished components are required to be transported from our Putian factory to Henan for assembling such that extra transportation cost and time is incurred. To minimize these extra transportation cost, the Henan factory will place less reliance on Putian production headquarter and procure more raw materials locally in Henan,. The Group expects that, in long term, it can improve overall production efficiency and overall profitability when Henan factory can attain benefits of economies of scale from expansion of production.

## Electronic Calculators

During the year, the sales of electronic calculators keep on as the Group's core revenue generator, posting HK\$364.8 million or 70.7% of the Group's total turnover. (2004: sales of approximately HK\$358.2 million and 73.6% of the Group's total turnover). Although there was pressure on selling price of electronic calculators during the year 2005, the Group had developed a wide range of electronic calculators with advanced and value-added features to keep the growth momentum and underscore the Group's position as one of the largest manufacturers of electronic calculators.



*Electronic Calculators*

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*Electronic clock*

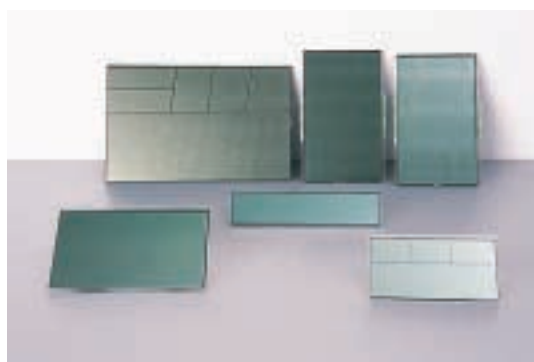
## Other Consumer Electronic Products

The sales of multifunctional water resistance watches and household telephones recorded HK\$40.1 million and HK\$32.4 million respectively, contributing 7.8% and 6.3% of the Group's total turnover (2004: sales of multifunctional water resistance watches and household telephones were approximately HK\$34.4 million and HK\$27.2 million respectively, or 7.1% and 5.6% of the Group's total turnover). The growth in multifunctional water resistance watches and household telephones consequences of our resources

put into developing new types of models and refinement of production line. With continuing growth of these products in past few years, the Group had already shaped a better product profile and gained additional growth momentum.

## LCD

During the year, the sale of LCD was HK\$38.5 million or 7.5% of the Group's total turnover (2004: sales of HK\$29.7 million or 6.1% of the Group's total turnover). The increase in sales of LCD was due to new orders from STN-LCD and HTN-LCD products were received during the year. We were satisfied with the operating status of the new STN-LCD line. During the year 2005, the Group had established a new ITO glass production line, which can meet about 50% of the Group's internal



*Liquid Crystal Display Units*

production requirements and further reduce the LCD production cost. The Group will upgrade its LCD production lines to include chip on glass ("COG") production facilities in early 2006. COG is a value added service of LCD that can boost the Group's STN-LCD sales and enhance our customer profile.

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## Corporate Development

The Group had diversified its production base and had set up 39 production lines in Xianyou and 27 production lines in Henan at the end of the year 2005. The expansion in Henan and Xianyou largely expand our production capacity in meeting the immense market demand for electronic products.



*ITO Production line*

Since Henan province can supply huge amount of labour, the Group is able to keep its expansion momentum in Henan without suffering from high labour cost in Putian. Furthermore, the Group can boost its

market penetration in the People's Republic of China (the "PRC") as Henan province is located at the centre of the PRC and it is easily accessible throughout the entire PRC.

During the year, the Group had established a new ITO glass production line. The ITO glass is a basic raw material for production of TN and STN-LCD. The new ITO glass production line had commenced its mass production in April 2005. Its production output can meet approximately half of the internal production demand. It can deepen the vertical production integration of our TN and STN LCD production lines. ITO glass production provided the Group with stable supply of components and minimized the inventory level to lower the production cost.

## Employees and Remuneration Package

As at 31st December 2005, the Group had approximately 10,900 employees (2004: approximately 9,300 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 PRC.

## FINANCIAL REVIEW

### Liquidity and Finance Resources

During the year, 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 31st December 2005, the Group had HK\$100 million interest-bearing borrowings (2004: HK\$50 million), of which approximately HK\$17 million was floating interest bearing and denominated in Renminbi with maturity within one year and the remaining were floating-interest bearing and denominated in Hong Kong Dollars. The Group's banking facilities were secured by (i) first legal charges on the leasehold land and buildings of the Group in PRC; and (ii) corporate guarantees given by the Company and certain subsidiaries of the Company.

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As at 31st December 2005, the Group's bank borrowings were denominated in Renminbi or Hong Kong dollars. The Group's sales and 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, the Group did not use any financial instrument for hedging the foreign exchange risk. However, for hedging of interest rate risk, the Group used interest rate swap which could effectively convert the floating interest rate bank loan to fixed interest rate. The amount of swap outstanding as at 31st December 2005 was HK\$20 million (2004: Nil).

As at 31st December 2005, the Group had current assets of approximately HK\$347.1 million (2004, as restated: HK\$300.6 million) and current liabilities of approximately HK\$192.1 million (2004: HK\$150.8 million). The Group's current ratio had decreased from approximately 2.0 times as at 31st December 2004 to approximately 1.8 times as at 31st December 2005. The Group had total assets of approximately HK\$600.0 million (2004 restated: HK\$510.1 million) and total liabilities of approximately HK\$242.1 million (2004: HK\$188.3 million), representing a gearing ratio (expressed as total liabilities to total assets) of approximately 40.4% as at 31st December 2005 as compared with approximately 36.9% (restated) as at 31st December 2004.

## Prospects

Notwithstanding the keen price competition in the market of electronic calculators the Group, expect the market of electronic calculators to achieve moderate growth in 2006. The Group is closely monitoring the market condition of electronic consumer products to explore new market opportunities. The Group will take necessary measures, such as launching more value-added products and flexibly deploy the production capacity across different production bases, in achieving growth in revenue and minimizing our production cost.

The Group believes that the benefit from the geographical advantages in different regions will release the pressure from labour shortage and escalating labour cost. Putian production headquarter are to be concentrated in value-added production processes like LCD production whereas other labour intensive process like assembling of electronic products will take place in Henan and Xianyou.

In 2006, the Group will upgrade its LCD production lines to include COG production facilities as a value-added service. In anticipation of the large market potential of COG modules, the Group will strengthen its customer profile and revenue base by broadening of our product range to TN and STN LCD modules. In view of the vast potential of LCD market and our growing LCD business, further investment on upgrading the LCD production lines including COG production facilities will be made where appropriate.

To satisfy the diversified market needs, the Group will develop different consumer electronic products and penetrate into more prospective markets including the PRC, Europe and US markets. In 2005, the Group had teamed with our customer in developing a series of electronic game cards for selling in US gambling markets. The electronic game cards had been launched with marvelous success and had already gained remarkable recognition as an innovative product. In 2006, the Group will put more effort on OEM products market and seek new market opportunities to foster the Group's growth momentum in the future.