

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS OVERVIEW

The Group is principally engaged in manufacturing and distributing electronic calculators and other electronic products and liquid crystal display units. During the Period, the Group recorded turnover of HK\$228.2 million, down 5.9% compared with HK\$242.6 million in corresponding period last year. The slightly decrease in turnover was attributable to the decline of average selling price of consumer electronic products arising from keen price competition. The Group's net profit attributable to shareholders was HK\$6.8 million, representing a decline of 77.6% compared with HK\$30.4 million in corresponding period last year.

The Group's gross profit during the Period recorded HK\$29.4 million (2005: HK\$53.5 million), down 45.0% compared with corresponding period last year. Gross profit margin dropped to 12.9% (2005: 22.1%). The decrease in gross profit margin was mainly due to the decrease in average selling price compound with increase in raw materials and labour costs. During the Period, in response to the keen price competition and pressure on relatively high level inventory, the Group had adopted aggressive pricing strategy and tightened the control of production. Production in Henan and Xianyou has been scaled down. This had resulted in high production overhead and further driven the gross profit down during the Period.

#### Electronic Calculators

During the Period, the sales of electronic calculators recorded HK\$148.2 million or 64.9% of the Group's turnover. (2005: sales of HK\$178.1 million and 73.4% of the Group's turnover).

#### Other Consumer Electronic Products

During the Period, the sales of multifunctional water resistance watches and household telephones recorded HK\$23.9 million and HK\$15.3 million respectively, contributing 10.5% and 6.7% of the Group's turnover (2005: sales of multifunctional water resistance watches and household telephones were HK\$17.6 million and HK\$12.1 million respectively, or 7.3% and 5.0% of the Group's turnover). The sales of electronic game card recorded HK\$2.5 million or 1% of the Group's turnover (2005: sales of HK\$1 million or 0.5% of the Group's turnover). The increase was due to new types of electronic games card in the series were developed.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS OVERVIEW

#### Liquid Crystal Display (“LCD”)

During the Period, the sale of LCD recorded HK\$21.1 million or 9.3% of the Group's turnover (2005: sales of HK\$15.7 million or 6.5% of the Group's turnover). As the Group had scaled down its production of electronic calculators during the Period, the internal demand for TN-LCD was dropped which enabled the Group to reallocate more capacity to the production of LCD for external sales in fulfilling increasing market demand. The Group will continue to explore the potential of high value added LCD products such as Chip on glass (“COG”) products, which involves the bonding of chips directly on LCD, and module in the future.

#### Corporate Development

The Group had commenced trial production of Chip on Glass (“COG”) products during the Period. COG is a value-added service for LCD which can expand the Group's LCD product range and can further improve the Group's competitiveness of our LCD business.

On 12 September 2006, the Company announced to propose to raise approximately HK\$27.9 million, after deducting all the relevant expenses, by issuing not less than 576,001,920 offer shares but not more than 579,341,920 offer shares on basis of two offer shares at HK\$0.05 each payable in full on application for every five shares held on the record date on 27 September 2006. The estimated net proceeds of the open offer of approximately HK\$27.9 million was intended to be used as to (i) approximately HK\$5 million towards sales and marketing expenditure on a newly developed product of LCD business of the Group which is expected, on the view of the Directors, to improve the Group's profitability; (ii) approximately HK\$15 million towards possible diversified investment on project when the Board considers appropriate and favorable to the Company and its Shareholders as a whole; and (iii) the remaining balance of approximately HK\$8 million for general working capital, such as administration expenses and raw material procurement, of the Group. Details of the open offer have been set out in the announcement made by the Company on 12 September 2006 and in the prospectus to be dispatched to shareholders on 29 September 2006.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS OVERVIEW

#### Employees and Remuneration Package

As at 30 June 2006, the Group had approximately 8,200 employees (30 June 2005: approximately 11,500 employees). 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").

#### Capital Expenditures

During the Period, the Group spent approximately HK\$13 million (2005: approximately HK\$27 million) on acquisition of property, plant and equipment, which was financed by internal cash resources.

#### Contingent liabilities

The Group did not have any significant contingent liabilities at 30 June 2006 (31 December 2005: Nil).

### 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 and PRC. As at 30 June 2006, the Group had HK\$75.3 million interest-bearing bank borrowings (31 December 2005: HK\$100.3 million), of which 8.6 million was floating interest bearing and denominated in Renminbi with maturity within one year and the remaining was 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

#### Liquidity and Finance Resources (Continued)

As at 30 June 2006, 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 Period, 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 30 June 2006 was HK\$16.7 million (31 December 2005: HK\$20 million).

As at 30 June 2006, the Group had current assets of HK\$321.9 million (31 December 2005: HK\$347.1 million) and current liabilities of HK\$179.9 million (31 December 2005: HK\$192.1 million). The Group's current ratio was 1.8 times, which was maintained at same level as that of 31 December 2005. The Group had total assets of HK\$577.7 million (31 December 2005: HK\$600.0 million) and total liabilities of HK\$213.2 million (31 December 2005: HK\$242.1 million), representing a gearing ratio (expressed as total liabilities to total assets) of 36.9% as at 30 June 2006 as compared with 40.4% as at 31 December 2005.

### PROSPECTS

The Group had anticipated that the keen price competition may continue to exist in the near future due to rapid expansion of production facilities by mainland manufacturers of electronic calculators, including the Group. The Group will take measures to control the production costs and other appropriate measures to improve the production efficiency and profitability. Furthermore, the Group will closely monitor the market condition of electronic consumer products to explore new market opportunities.

The Group will strengthen the marketing effort on COG products and modules to capture the market opportunity. This can further improve the Group's competitiveness of our LCD business. For the OEM business, the Group's sales of electronic game cards had continued to growth rapidly and more new type of Game cards are expected to be developed in the future.