

## INTRODUCTION

The results for 2006 are extremely disappointing. They record the consequences of what has been a very difficult period for the Company as it sought to return to profitability through the higher margins and greater efficiency that outsourcing production to a new manufacturing partner was to bring. Whilst the loss for the year and the balance sheet position at year end are unsatisfactory, these numbers do not reflect the rights issue that closed in January 2007 which raised new equity of HK\$60 million nor the operational improvement that began in the fourth quarter of last year which has continued to date. This improvement is due to the implementation of a significant cost reduction program, which included major workforce reductions across the Group, and an improved sales mix as we began to ship new higher margin products. As mentioned below, we managed to achieve breakeven for the first quarter of 2007 on sales of HK\$403 million and are now rapidly moving to establish new more cost-efficient manufacturing facilities.

Our ability to come through this difficult period has been directly attributable to the support of our customers, suppliers, certain bankers and of course our loyal and hardworking staff. We are extremely grateful to all of them.

## MARKET POSITION MAINTAINED

Despite these setbacks, industry reports confirm that not only did we maintain our 22% share of the European overall cordless telephone handset market in 2006, we also secured the number one position in the VoIP category, the newest and fastest growing segment of the market for 2006 and the foreseeable future.

## OPERATING PERFORMANCE

Despite the gradual improvement in the trading position of the Group in the second half of 2006, which has continued into the first quarter of this year (see below), we have decided to adopt a conservative approach and have made certain provisions for several key matters.

## 簡介

二零零六年的業績令人極為失望。去年，本公司在致力提昇毛利率及將生產工序外判予新夥伴過程中，當中經歷重重困難。於年結日，全年虧損和資產負債水平雖然未如理想，但該等數據並未反映於二零零七年一月完成供股後籌集所得的新資本60,000,000港元，以及未全面反映去年第四季開始已逐步改善的營運狀況。這包括了成本減省計劃、精簡本集團的人力，以及開始付運利潤較高的新產品以改善銷售組合。正如下文所述，我們於二零零七年首季達到收支平衡，銷售額為403,000,000港元，現正加快建立較低成本之生產設施。

在這困難時期，全賴各客戶、供應商、若干銀行及本集團忠實和勤奮的員工的鼎力支持，我們方得以過渡這難關，本人謹此致以衷心的感謝。

## 維持市場地位

儘管成績未如理想，但行業報告顯示新確科技於二零零六年歐洲整體無線電話手機市場不僅維持了22%的份額，更於二零零六年和可見未來市場上最新和發展最快的互聯網語音科技(VoIP)產品高踞首位。

## 業務表現

儘管本集團於二零零六年下半年的經營情況逐漸改善，並延續至今年度上半年(見下文)，然而，本集團已決定採取保守的策略，為若干主要項目作出撥備。

**OPERATING PERFORMANCE (continued)**

The loss for the year was arrived at after charging “impairment losses on assets” of HK\$241.4 million. This charge is made up of two items: HK\$168.9 million for impairment of receivables from our associate in Shenzhen that runs our manufacturing operations, and HK\$72.5 million for impairment of certain product development projects.

Sales in the full year were down 11.8% over 2005, due to an average unit sales price decline of approximately 12.2% year on year and delays in the introduction of new models. However, we saw an improvement in our position in the second half as we began to ship our higher margin, newly developed VoIP phones to Europe. Sales in the second half were HK\$877.5 million, equal to the first half level. Importantly, the profit margin of products in the second half was higher, with the gross margin improving from 2.2% in the first half to 3.2% in the full year.

If we had factored out all non-cash charges, such as depreciation, amortisation and the “impairment losses on assets” item referred to above, the loss for the full year would have been HK\$48.6 million, of which losses for the first half were HK\$39.1 million. The loss in the second half narrowed on this basis to HK\$9.5 million. Net cash from operating activities turned positive, reaching HK\$56.7 million for the full year.

The causes of the margin pressures were well canvassed in the 2005 annual report and the 2006 interim report. In addition to a sales mix in the first half of 2006 that emphasized relatively lower-margin entry level products, they included increased labour and operating costs in Shenzhen, increased component costs for electronic goods due to rises in metal and plastic costs, and the appreciation of the RMB. We had expected the arrangements with Uniden Corporation of Japan (“Uniden”) that were announced in mid-2006 to have assisted in addressing these factors. Unfortunately this did not transpire. We then took a number of critical steps to reduce costs, the benefits of which flowed through into the fourth quarter of last year and the first quarter of 2007.

**業務表現 (續)**

本年度的虧損包括241,400,000港元的「資產減值撥備」。此減值損失包括兩個項目：為本集團深圳聯營公司應收款項的減值費用168,900,000港元，以及若干產品開發項目的減值費用72,500,000港元。

全年的銷售額較二零零五年下跌11.8%，這是由於產品平均售價按年下跌約12.2%及新型號產品延遲推出市場所致。然而，隨著本集團開始付運毛利較高的新開發VoIP電話至歐洲市場，下半年的狀況已有所改善，銷售額為877,500,000港元，與上半年相若。更重要的是，下半年產品的邊際利潤較高，毛利率更由上半年的2.2%升至全年的3.2%。

倘若不計入所有非現金開支，例如折舊、攤銷及上述的「資產減值損失」，則全年虧損48,600,000港元，當中上半年虧損39,100,000港元，下半年的虧算已收窄至9,500,000港元。經營業務全年錄得56,700,000港元正現金流入。

令邊際利潤承受沉重壓力的主要因素已在二零零五年年報及二零零六年中期報告中詳細講解。這包括2006年上半年利潤較低的入門產品佔銷售之較大比重，深圳地區的工資和經營成本持續上升、金屬和塑膠成本上升帶動電子產品零件成本上漲、人民幣升值等。我們曾預期二零零六年中所公布與日本Uniden Corporation (「Uniden」)的合作安排將有助舒緩這些負面影響。然而，此計劃並沒有兌現。就此，我們已採取措施降低成本，這些措施的正面影響已於去年第四季及二零零七年首季逐漸顯現。

## OPERATING PERFORMANCE (continued)

The Group instituted a significant cost reduction program in the fourth quarter of 2006. This involved a contraction of the workforce across the Group, major cutbacks in expenditure, the closure of our UK-based Suncorp Applied Research Limited (“SARL”), and the transfer of its development projects to the engineering team in Shenzhen. In addition, the Executive Directors’ compensation was reduced by approximately two-thirds.

As mentioned below under the heading “First Quarter 2007”, this improvement in operations continued into 2007 and the Group has successfully turned around its operations and achieved breakeven on sales of HK\$403 million.

## BALANCE SHEET

The Group faced a number of unexpected events in 2006 that inevitably created significant difficulties as we sought to turn around the consequences of a challenging first half. These included certain bankers canceling or failing to renew financial facilities in the second half; constraints on a timely transfer of production to the facilities of Uniden, the then largest shareholder; the resulting need to continue production at the expensive manufacturing facilities of our associated company Shenzhen Top Guo Wei Electronics Co., Ltd. (“Guo Wei”); and the sudden resignation of the six representative directors of Uniden from the Board in November 2006.

Shareholders will recall that in April 2006, the Company announced that its performance in the second half of 2005 had deteriorated and that it was being adversely affected by a number of rising costs, including the cost of manufacturing at its associated company in Shenzhen, that it continued to be affected by those costs pressures into 2006, and that the Board was seeking ways to reduce production costs, either by outsourcing or locating new factory premises. In July 2006, the Company entered into arrangements with Uniden under which Uniden would become the single largest shareholder and a party to a Business Alliance Agreement (“BAA”) pursuant to which Uniden would support the Company in, amongst other things, research and development, purchasing and joint marketing activities, and would take up production of the Group’s products under a Master Production Agreement (“MPA”). The transfer of production to Uniden’s China facility, which was expected to occur as soon as

## 業務表現 (續)

本集團於二零零六年第四季實施大規模成本減省計劃，包括精簡本集團的人手、大幅削減開支、結束英國 Suncorp Applied Research Limited (「SARL」) 並將發展項目轉交深圳工程部門負責，而執行董事之薪酬亦削減約三份之二。

正如下文「二零零七年首季」一節所述，業務於二零零七年持續改善，本集團成功扭轉經營業務的劣勢，達到收支平衡，銷售額為403,000,000港元。

## 資產負債表

二零零六年所發生若干預料以外之事件，無可避免為集團帶來重重障礙。我們於上半年已致力解決這些困難所帶來的後果，包括若干銀行於下半年終結或不延續財務融資，加上當時大股東 Uniden 之生產設施未能及時承接本集團所有生產要求，令我們需要繼續使用深圳托普國威電子有限公司 (「國威」) 昂貴的生產設施進行生產，以及董事會六名 Uniden 代表董事於二零零六年十一月突然辭請等事宜。

股東仍記得二零零六年四月本公司宣佈，面對成本上升的負面因素，包括深圳聯營公司生產成本上升，令二零零五年下半年的業績下跌。並繼續影響二零零六年公司的營運，董事會就此積極採取措施削減生產成本，包括利用外判服務和另覓新廠房。於二零零六年七月，本公司與 Uniden 所訂之安排令 Uniden 成為本集團單一大股東，並且訂立商業聯盟協議，據此，Uniden 將協助本公司進行研發、採購及聯合市場推廣活動，並且根據生產總協議負責生產本集團產品。本集團於是預期在實際可行情況下盡快將生產項目轉至 Uniden 的中國廠房，並終止透過當時之生產基地國威生產所需產品，從而轉由 Uniden 負責採購

## CHAIRMAN'S STATEMENT

### 主席報告

#### BALANCE SHEET (continued)

practicable, was intended to enable the Group to cease sourcing its manufacturing requirement at Guo Wei, the Group's existing production arm. Uniden would then be responsible for procuring all materials and components. Immediately following signing of the agreements (which were approved by shareholders on 10 August 2006), work began between the two companies on the implementation of the MPA and the BAA.

However, unforeseen delays in the implementation of the MPA occurred. Uniden was only able to commence production in late October, and by the end of fourth quarter had only manufactured and delivered about 7% of the Company's total requirements. Moreover, in early November, six directors of the Company, being representatives of Uniden, unexpectedly resigned from the Board.

The delay and limited implementation of the MPA required the Company to continue to source production from Guo Wei, which continues today. Contrary to what was originally intended, Guo Wei was thus unable to cease operations, and has not been able to realize its plant and machinery, property and other assets in order to repay amounts due to the Group.

At the same time, the Company rationalised its product development plans. The decision was made to close the UK-based SARL, and to move its projects to our lower cost Shenzhen-based research and development team. This change led to a charge against certain product development expenditure in respect of a limited number of projects then being undertaken by SARL.

The deficiency of net assets at 31 December 2006 of HK\$39.2 million, is before taking account of the rights issue in January 2007 in which we raised approximately HK\$60 million of new equity.

During the second half of 2006, we repaid to banks a net amount of HK\$112.9 million of financial facilities (aside from invoice financing facilities). Today, the total amount due to banks (other than in respect of invoice discounting facilities) is only HK\$23.5 million.

I refer you to the "Management Discussion and Analysis" for a more detailed review of our financials.

#### 資產負債表 (續)

所有物料和零件。雙方於簽訂協議後(並於二零零六年八月十日股東通過協議後)隨即開始合作落實生產協議及商業聯盟協議。

然而，落實生產協議方面發生了不可預見的延誤。Uniden僅能於十月底開始生產，至第四季尾才生產及付運了本集團總需求產量之約7%。此外，於十一月初，本公司六名董事(即Uniden的代表)突然辭去董事會職務。

由於未能完全落實生產協議，令本公司至今仍需依賴國威生產其所需產品。這結果有違集團之初衷，令國威未能終止業務，而且未能變現其廠房及機器、物業及其他資產以償還結欠本集團的款項。

同時，本集團須重新調節產品開發計劃。本集團決定關閉英國的SARL，並將旗下項目轉交成本較低的深圳研發工程部門。此變動終止了數項正由SARL進行的研發項目，並作出相關撥備。

於二零零六年十二月三十一日的資產淨值虧絀為39,200,000港元(這並未包括於二零零七年一月，為本集團籌得約60,000,000港元新資本之供股)。

於二零零六年下半年，本集團向銀行償還淨值112,900,000港元的財務融資借貸(不包括應收貿易帳款融資)。現在，本集團應付銀行的總金額(不包括應收貿易貼現融資)僅為23,500,000港元。

有關財務回顧詳情請參閱「管理層論述及分析」。

## STATUS OF AGREEMENTS

In March of this year, having fully considered the state of the Company's business relationship with Uniden in the context of the MPA and the BAA, and, in particular, Uniden's breaches of those agreements, the Company resolved to exercise in the Company's best interests its right to terminate the MPA and the BAA. Accordingly, the Company served a written notice of termination on Uniden. The events involving Uniden and the Company are the subject of legal proceedings in the Hong Kong courts which began in February of this year, and in these circumstances, the Company is unable to comment on these proceedings. However, the Company strongly refutes Uniden's allegations and claims brought against the Company, and considers them to be without merit. The Company intends to fully defend those claims and allegations.

## FIRST QUARTER 2007

We have decided to adopt quarterly reporting of results and will announce the unaudited consolidated results for the first quarter of 2007 on Friday, 27 April 2007. Those results, which are unaudited and based on the Company's management accounts, will show that the Company had consolidated sales of HK\$403 million in the first quarter of 2007 and achieved EBITDA of HK\$17.2 million and breakeven operating results.

## NEW MANUFACTURING FACILITY PLANS

The Company has now revived plans that were formulated before the MPA with Uniden to move to a lower cost and more efficient manufacturing location in Guangdong. The plan involves leasing a new facility in Mei Zhou in Guangdong province, which is approximately four hours from the Hong Kong-Shenzhen border. Our plan is to effect this move as soon as possible. We expect to complete the transfer of full production by the end of the year.

## 協議狀況

於本年三月，在全面考慮到本公司與Uniden基於生產總協議及商業聯盟協議方面的商業關係，特別是Uniden違反該等協議本著的主要條件，因此我們決議為本公司爭取最大利益的前提下運用權利終止生產協議及商業聯盟協議。本公司亦已向Uniden發出書面通知。由於該事項涉及Uniden與本公司今年二月開始在香港法庭之法律訴訟，因此本公司未能就此等法律訴訟發表意見。然而，本公司就Uniden的各項指控及索償表示全面反對，並認為申訴無效。本公司準備對該等指控及索償作出全面抗辯。

## 二零零七年首季

從本年開始，本集團決定採納季度業績報告形式，並將於二零零七年四月二十七日(星期五)公布本集團二零零七年第一季未經審核綜合業績。有關業績未經審核，並將根據本公司管理賬目公佈，業績顯示本公司第一季的綜合銷售額達403,000,000港元，EBITDA為17,200,000港元，並已達致營運收支平衡。

## 新生產設施計劃

本公司現正計劃落在與Uniden達成生產總協議前所定之把其生產基地外移至廣東其他生產成本較低之地區。計劃準備在距離港深邊界約四小時車程的廣東省梅州租賃新廠房，本公司計劃盡快實行此計劃。我們預期六月底可開始生產，並於本年底前完成整個生產遷徙程序。



## SALES AND MARKETING

Demand for our products remains strong. We continue to develop new ranges of DECT cordless telephones for the European and other international markets and we have a solid order book with existing customers. Infosource, a leading European research company, reported in April 2007 that we are the leader in VoIP cordless telephones in the European market.

We are committed to generating new business opportunities with higher margin products. Recently we won contracts to supply two leading international groups with ranges of DECT and VoIP phones. We expect deliveries to these new customers will commence in the third quarter of 2007. Also in the third quarter of 2007, we expect to launch our DECT and DECT/VoIP cordless telephones in the USA market through our joint venture with XACT Communication, Ltd. Shareholders were informed in early 2006 of our entry into the USA market, but delays in the development of these projects meant we were unable to execute the plan in 2006.

We have recently gained certification for 10 new models of DECT cordless telephones incorporating Skype VoIP software protocols, and our models have new unique innovative features that we feel confident will enable us to enhance our sales success in this market sector.

## OUTLOOK

I draw your attention to the auditor's opinion and the matters dealt with therein. The auditor's caution is understandable in light of the events of 2006. Let me assure shareholders that the Board and I are committed to pursuing prudent management of the Company's financial affairs, with an emphasis on business growth and rigorous cost controls. Whilst we recognize that challenges remain, we are encouraged by the Company achieving breakeven in the first quarter. Our focus remains on improving our profitability through an emphasis on higher margin products, the relocation of manufacturing facilities, improved purchasing, and exacting overhead targets. We continue to be driven by innovation and anticipate new product launches in the VoIP, DECT, video phone and Wifi markets during 2007.

## 銷售及市場

客戶對本集團產品之需求仍然強勁。我們將繼續為歐洲及其他國際市場開發新DECT無線電話系列，並已接獲不少源自現有客戶的訂單。根據歐洲領先市場調查Infosource於二零零七年四月的調查顯示，我們已成為歐洲VoIP無線電話市場的領導企業。

我們致力開拓利潤較高的新產品及業務商機，而最近更成功獲得合約，為兩間國際領導企業提供DECT產品系列及VoIP電話。我們預期於二零零七年第三季開始向此等新客戶付運產品。此外，於二零零七年第三季，我們亦將開始透過與美國XACT Communication, Ltd. 所成立的合資企業銷售DECT產品及DECT/VoIP無線電話。股東已於二零零六年初得悉集團有意進軍美國市場，惟計劃受到若干延遲導致未能於二零零六年如期推行。

本集團已於近期就其10款備有Skype VoIP軟件協定技術的新DECT無線電話型號取得認證。該等新型號備有獨特創新功能，我們對此項產品取得令人滿意的銷售額充滿信心。

## 前景

本人謹請各股東留意核數師的意見和所載事宜。綜觀二零零六年的事件，我們可以理解核數師審慎處理本集團財務數字的原因。然而，本人可向各股東保證，董事會及本人管理本公司財務事項時將力求審慎，並專注推動業務增長和嚴格控制成本。雖然挑戰仍然存在，但本公司能於首季達到收支平衡，實在令我們感到鼓舞。我們將透過專注發展利潤較高的產品、遷移生產設施、改善採購及成本控制以提升本集團之盈利魄力。我們亦將繼續不斷創新，預期將於二零零七年度推出更多新產品於VoIP、DECT、視像電話及Wifi市場。