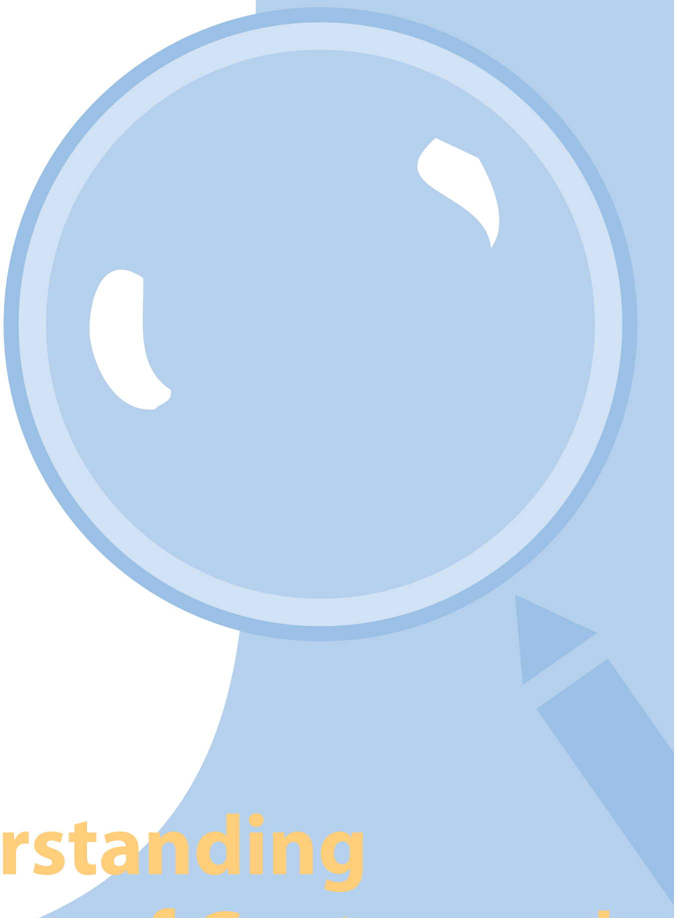
# Understanding of Customers' Requirements



## FINANCIAL REVIEW

Fiscal year 2004 was a year of record turnover and profit for the Group. Net profit for the year amounted to HK$43 million, representing an increase of 47% if excluding the one-off gain of disposal of interests in a subsidiary in fiscal year 2003. Total turnover increased from HK$453 million last year to HK$601 million, representing an impressive increase of 33%. The Company's continued success in product development and improving efficiency were the primary reasons for record results achieved.

### Turnover

Overall sales increased 33% or HK$148 million over last year. The increase was primarily due to the continued growth of the Group's telecommunication products and consumer electronic appliances. Of the HK$148 million increase in sales, the major portion was attributable to the networking products and pet training devices.

Telecommunication products became the Group's major income source, representing 60% of the total turnover. This business segment mainly comprises networking products and telephone products. During the year, sales of telecommunication products, driven by the escalating demand for networking products in Mainland China, increased by 75% to HK$360 million.

Sales of consumer electronic appliances for the year amounted to HK$218 million, grew by 2% over last year. The overall 20% increase in sales from consumer electronic products other than handheld TV was mostly offset by the decline in handheld TV which was the result of the consumers' shifting preference to digital audio-visual products. This business segment's contribution to the Group's total turnover decreased from 47% to 36%.

Office automation products recorded a decline in turnover. The decline was a result of the Group's strategies to develop high growth niche product business and downsize consignment business, in particular, the PCB assemblies of certain office automation products.

Geographically, Mainland China became the major market of the Group. Sales to Mainland China increased by 83% to HK$353 million, representing 59% of the Group's turnover. Sales to The United States of America increased by 12% to HK$154 million, representing 26% of the Group's turnover.

### Profit Attributable to Shareholders

The Group's gross profit for the year amounted to HK$91 million, up from HK$72 million last year, representing an increase of 27%. Gross profit margin for the year was 15.2%, slightly edge down from 15.9%, as a result of the combined effects of the decrease in consignment sales and the substantial increase in sales of networking products which realize lower gross margin than the Group's other products. Although overall gross margin was 0.7% comparatively lower than that of last year, gross margins for networking products and consumer electronic appliances have both improved during the year as a result of improved efficiency and economy of scale.

Research and development expenses increased from HK$0.6 million to HK$1 million, representing approximately 0.2% of sales. Selling and administrative expenses moved up 22% this year. The increase in distribution and selling expenses as a percentage to sales from 1.7% to 1.9% was the result of the continued investment in sales force and marketing expenses. Although expenses rose, selling and administrative expenses as a percentage to sales trimmed down from 7.7% to 7.0%, reflecting our success in cost control. As a result, operating profit maintained at 8% to sales.

## FINANCIAL REVIEW *(Continued)*

**Profit Attributable to Shareholders** *(Continued)*

While debt level increased to meet the growth in business, finance costs were basically flat with last year due to the lower of borrowing rates. Taxation expenses decreased from HK$5.0 million in last year to HK$2.4 million in this year.

Net profit margin improved to 7.0% from 6.4% last year while net profit achieved a record level of HK$43 million, up by 47% over last year (in both cases excluding the one-off gain of HK$9 million from the disposal of interests in a subsidiary). Return on average equity maintained at satisfactory level of 26%.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group's financial resources and liquidity remained strong. As at 31 March 2004, the Group's cash and bank balances increased to HK$66 million, compared to HK$32 million last year while the current ratio increased from 1.78 to 1.96.

Net bank borrowings (after deducting cash and bank balances) as at balance sheet date were HK$35 million compared to HK$24 million last year. Net gearing ratio, calculated as net bank borrowings to equity, was 17%, that was comparable with last year. The increase in bank borrowings was primarily due to the increase in working capital resulting from the substantial growth in sales of networking products during the year. The mix of bank borrowings continued to shift in favour of long-term based funding, the balance between long-term and short term borrowings was 58%:42%. The Group currently has aggregate banking facilities of HK$252 million provided by its principal bankers.

The Group continued to adopt tight control on receivable collection and inventory level. The increase in inventory balance was a result of the higher order book value at the balance sheet date. Accordingly, the Group's average inventory turnover days increased from 49 days to 58 days. The increase in receivable balance was the result of the combined effects of the substantial increase in sales of 54% in the last quarter of the year over the same period last year and longer credit terms granted to networking products customer as compared to other product customers. As a result, debtor turnover days increased to 90 days as compared to 62 days of last year. The increase in receivable was under good control and there was no significant bad debts during the year.

## TREASURY POLICIES

The Group generally finances its operations with internally generated resources and banking facilities provided by its principal bankers in Hong Kong. Banking facilities used by the Group include trust receipt loans, overdrafts, finance leases and term loans, which are principally on the floating interest rates. Most of the Group's business transactions are denominated either in Hong Kong dollars, US dollars or Renminbi and the Group does not have significant exposure to foreign exchange fluctuation.

## PLEDGE OF ASSETS

As at 31 March 2004, the Group did not pledge any of its assets (2003: nil) as securities for banking facilities granted to the Group.

## CONTINGENT LIABILITIES

As at 31 March 2004, the Company had provided guarantees of approximately HK$136 million to several bankers to secure banking facilities of its subsidiaries, and the Group did not have other significant contingent liabilities.

## EMPLOYEES

As at 31 March 2004, the Group had approximately 1,300 employees, of which 70 were based in Hong Kong while the rest were in the PRC. Competitive remuneration packages are structured to commensurate our employees with individual job duties, qualification, performance and years of experience. In addition to basic salaries and mandatory provident fund, the Group offers staff benefits including medical schemes, educational sponsorship subsidies, and discretionary performance bonus and share options. A share option scheme was adopted on 17 September 2002 which is valid and effective for a period of 10 years since the date of adoption.